

## 1 FEDERAL TRADE COMMISSION

## 2 I N D E X (PUBLIC RECORD)

3

4 WITNESS: DIRECT CROSS REDIRECT RECROSS

5 Hoffman 2599 (SP) 2622 2663 (SP)

6 Mnookin 2666 (SP) 2682

7 Driscoll 2699 (SP) 2718 2750 (SP) 2750

8

9 EXHIBITS FOR ID IN EVID

10 Commission

11 None

12 Schering

13 None

14 Upsher

15 None

16 OTHER EXHIBITS REFERENCED PAGE

17 Commission

18 CX 60 2731

19 CX 267 2736

20 CX 458 2659

21 CX 459 2661

22 CX 463 2625

23 CX 470 2638

24 CX 472 2651

25 CX 473 2639

For The Record, Inc.  
 Waldorf, Maryland  
 (301) 870-8025

1	Commission	
2	CX 695	2741
3	CX 746	2735
4	Schering	
5	None	
6	Upsher	
7	None	
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For The Record, Inc.  
Waldorf, Maryland  
(301) 870-8025

## FEDERAL TRADE COMMISSION

In the Matter of: )  
SCHERING-PLOUGH CORPORATION, )  
a corporation, )  
and )  
UPSHER-SMITH LABORATORIES, ) File No. D09297  
a corporation, )  
and )  
AMERICAN HOME PRODUCTS, )  
a corporation. )  
-----)

Friday, February 8, 2002

9:30 a.m.

TRIAL VOLUME 12

PART 1

PUBLIC RECORD

BEFORE THE HONORABLE D. MICHAEL CHAPPELL

Administrative Law Judge

Federal Trade Commission

600 Pennsylvania Avenue, N.W.

Washington, D.C.

Reported by: Susanne Bergling, RMR

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1 P R O C E E D I N G S

2 - - - - -

3 JUDGE CHAPPELL: Let's go back on the record.

4 MR. NIELDS: Your Honor, I think we're in  
5 Schering's case, and I wanted to raise a good news/bad  
6 news issue with the Court at the outset today. The  
7 good news is --

8 JUDGE CHAPPELL: Okay. Is this joint good news  
9 or just --

10 MR. NIELDS: I think it might be. We seem to  
11 be moving more rapidly through our witnesses than we  
12 had guessed we would based on yesterday's length of  
13 direct and cross, and we're also paring down to avoid  
14 duplication to some degree.

15 JUDGE CHAPPELL: And that's a good thing.

16 MR. NIELDS: I thought that Your Honor might  
17 think that was a joint good thing. The bad news is  
18 actually the same. We have three witnesses lined up  
19 for today, but based on the way things are going, my  
20 guess is that isn't going to use up all the day or even  
21 close to it.

22 JUDGE CHAPPELL: Of course, I probably, since  
23 I'm the judge, could invoke the Friday afternoon rule,  
24 if necessary, if no one objects. Do I hear any  
25 objection to that?

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1 MR. CURRAN: No objection, Your Honor.

2 MR. ORLANS: No objection, Judge.

3 JUDGE CHAPPELL: Let's roll on and see where we  
4 go then, Mr. Nields.

5 MR. NIELDS: Thank you. Our first witness is  
6 John Hoffman.

7 JUDGE CHAPPELL: If that's the worst bad news I  
8 get today, it's going to be a good day.

9 Raise your right hand, please.  
10 Whereupon--

11 JOHN F. HOFFMAN  
12 a witness, called for examination, having been first  
13 duly sworn, was examined and testified as follows:

14 JUDGE CHAPPELL: Be seated.

15 State your full name for the record, please.

16 MR. NIELDS: Your Honor, I promised Mr. Orlans  
17 that we would not begin until he had a moment.

18 MR. ORLANS: Your Honor, since I have not  
19 formally appeared, I wanted to introduce myself. My  
20 name is Melvin Orlans, and I'll be representing  
21 complaint counsel with respect to this witness.

22 JUDGE CHAPPELL: Welcome, thank you.

23 You may proceed.

24 DIRECT EXAMINATION

25 BY MR. NIELDS:

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1           Q. I think I interrupted after the Court asked you  
2 to state your name.

3           A. My full name is John Fletcher Hoffman.

4           JUDGE CHAPPELL: Thank you.

5           MR. NIELDS: Your Honor, in conformity with the  
6 Court's ruling of yesterday, Mr. Hoffman will be  
7 testifying about conversations with opposing counsel  
8 and Judge Reuter as to which he has been fully deposed  
9 by complaint counsel, and he will not be testifying  
10 about mental impressions or conversations with his  
11 client as to which we will assert the privilege.

12          JUDGE CHAPPELL: Thank you, and I'm sure if he  
13 does, someone will let me know.

14          MR. NIELDS: I'm sure they will, Your Honor.

15          JUDGE CHAPPELL: Okay, you may proceed.

16          BY MR. NIELDS:

17          Q. How are you employed, Mr. Hoffman?

18          A. I'm employed as a staff vice president and  
19 associate general counsel of Schering-Plough.

20          Q. And what are your responsibilities?

21          A. My responsibilities include the antitrust  
22 function for the company, which includes antitrust  
23 litigation, counseling and compliance. In addition, I  
24 handle the major investigations or the group I  
25 supervise handles the major investigations and



1 litigation facing the company, and I am also  
2 responsible for budget and administration of the legal  
3 department.

4 Q. Could you describe your educational background?

5 A. Yes, sir. I spent a -- following graduation  
6 from high school, I spent a year at Duke University. I  
7 transferred to St. Lawrence University, graduating in  
8 1969 with a BS in physics, a minor in math and a heavy  
9 concentration in economics. Following a work  
10 experience, I attended Washington & Lee School of Law,  
11 graduating in 1975 with a juris doctorate degree.

12 Q. Can you describe your job history since law  
13 school?

14 A. After taking the Bar in the summer of 1975, I  
15 joined Cadwalader, Wickersham & Taft as an associate --  
16 excuse me, Your Honor. I rotated through two groups  
17 for a year. At the end of that year, I joined the  
18 litigation antitrust group. I stayed in that group  
19 until I left the firm, becoming a partner in June of  
20 1983.

21 JUDGE CHAPPELL: Do you need some water?

22 THE WITNESS: Could I have some water, please?  
23 I apologize, I'm recovering from a cold, recovering.

24 JUDGE CHAPPELL: Okay, let us know when you're  
25 ready, sir.

1 THE WITNESS: I'm ready now.

2 BY MR. NIELDS:

3 Q. I think we had gotten up to your becoming a  
4 partner at Cadwalader.

5 A. I stayed at Cadwalader until the end of 1994,  
6 and then early -- January 3, 1995, joined  
7 Schering-Plough as staff vice president and associate  
8 general counsel.

9 Q. Did you specialize in any particular area of  
10 law at Cadwalader?

11 A. Certainly the type of law that I practiced the  
12 most of was antitrust law, and my mentor was an  
13 antitrust lawyer.

14 Q. And did you hold any other credentials, so to  
15 speak, in the antitrust field?

16 A. In -- well, since beginning the practice of law  
17 or shortly thereafter, I've been a member of the ABA  
18 Antitrust Law Section, and in the 1980s, I was a member  
19 of the New York County Lawyers Trade Regulation  
20 Committee, of which I was elected chair in the late  
21 1980s for a year.

22 Q. I think you said you joined Schering-Plough in  
23 early 1995. What have your responsibilities been since  
24 then?

25 A. When I joined Schering, my responsibilities

1 included the antitrust function, litigation, counseling  
2 and compliance. In the spring of 1996, I took over  
3 responsibility for the rest of the litigation facing  
4 the company and investigations, with the exception of  
5 employment litigation, and at some time in that period,  
6 very close to that, I took over responsibility for the  
7 patent litigation function also.

8 Q. Were you responsible for patent litigation in  
9 1997 and 1998?

10 A. Yes, sir.

11 Q. And did there come a time when you became  
12 involved in discussions with opposing counsel and Judge  
13 Reuter in connection with the possible settlement of a  
14 case called Key Pharmaceuticals against ESI?

15 A. Yes, I did.

16 Q. And can you just tick off for us the  
17 involvement that you had?

18 A. I was involved in one telephone conference with  
19 ESI's counsel. I had I believe two meetings with Judge  
20 Reuter, although it may have been one. And I was also  
21 involved in a rather extended telephone conference with  
22 Judge Reuter and representatives of Key and ESI.

23 Q. Okay. Directing your attention to the one or  
24 two sessions with Judge Reuter, can you tell us why you  
25 believe it was two?

1           A. I have a fairly distinct memory of being in  
2 Philadelphia courthouse twice. The first time -- it's  
3 a large, open atrium lobby, and the first time I was  
4 there I recall I did not know where I was going and was  
5 worried about being able to find the judge's chambers.  
6 The second time I recall that I knew where I was going  
7 and I felt like I had learned something. But that  
8 being said, I can't separate out what occurred on one  
9 occasion from the other very well.

10          Q. Now, could you just look at the document behind  
11 tab 22 in the notebook in front of you? I'll ask you  
12 if you can tell us what that is.

13          A. That's my expense report for a trip to  
14 Philadelphia to meet with Judge Reuter and opposing  
15 counsel on October 27th of 1997. It also has behind it  
16 the supporting documentation, the toll receipts and  
17 such.

18          Q. And does that tell you one of the dates on  
19 which you -- either the date or one of the two dates on  
20 which you attended a mediation session?

21          A. Yes, sir, I'm confident I was there on that  
22 date.

23          Q. And do you know for certain whether the -- if  
24 there was another, whether it was before or after?

25          A. My belief is it was after, but I can't be

1 absolutely certain of that.

2 Q. What was the format of the mediation session or  
3 sessions that you recall?

4 A. They were conducted in the nature of a classic  
5 mediation. Judge Reuter would have one side in his  
6 chambers and discuss settlement with them, and then  
7 that side would be ushered out into his courtroom to  
8 wait while he talked with the other side in his  
9 chambers.

10 Q. And did there come a time when you were talking  
11 yourself with Judge Reuter in one of these sessions?

12 A. Yes, sir, on several occasions.

13 Q. Can you describe what you recall about those  
14 discussions -- that discussion or discussions?

15 A. The topics that we covered in those sessions  
16 were, one, that Judge DuBois was not going to try the  
17 case; two, that Judge Reuter thought we ought to settle  
18 the case and believed Schering had a lot to lose and  
19 should consider paying a significant amount of money to  
20 do that.

21 Third, I had -- I expressed antitrust concerns  
22 with such a construct for settlement --

23 MR. ORLANS: Your Honor, I'd like to renew the  
24 objection that was made previously to the hearsay  
25 statements of the magistrate judge who was involved in

1     these proceedings. Obviously there's no way for  
2     complaint counsel to get behind that. We have not been  
3     able to talk to the magistrate judge about these  
4     statements.

5             Obviously, in addition to being hearsay, they  
6     are quite self-serving and we think demonstrably  
7     unreliable, and we do not think it's appropriate for a  
8     witness to testify as to what the magistrate judge said  
9     to him.

10            MR. NIELDS: Your Honor, Schering, as I think  
11     the Court is aware, is introducing, has introduced and  
12     will introduce evidence that the terms of the agreement  
13     actually reached were urged by Judge Reuter, known to  
14     him and mediated by him. We submit that is extremely  
15     relevant to our defense and to the Court's decision.

16            Second, Dr. Bresnahan, as you may recall,  
17     testified that when he reviewed settlement  
18     conversations, he found direct evidence that Schering  
19     agreed to pay for delay. We are introducing in both  
20     cases evidence that Schering declined to pay for delay,  
21     citing antitrust concerns. That is directly responsive  
22     to complaint counsel's case.

23            Third, Professor Bresnahan testified that  
24     Schering had a huge incentive to pay for delay, and he  
25     believed we were eager to do that. This testimony that

1 Mr. Hoffman is giving refutes that directly. We not  
2 only declined to do it, but we briefed a judicial  
3 officer about antitrust concerns. That directly  
4 refutes Professor Bresnahan's testimony.

5 MR. ORLANS: Your Honor -- I'm sorry.

6 MR. NIELDS: I haven't finished.

7 MR. ORLANS: I'm sorry.

8 MR. NIELDS: Fourth, Your Honor, all of this,  
9 all of the conversations I'm going into now, have been  
10 gone into by complaint counsel in Mr. Hoffman's  
11 deposition, and they have introduced that deposition  
12 into evidence.

13 MR. ORLANS: Your Honor, insofar as what was  
14 known to Magistrate Reuter, there is a formal record.  
15 We do have orders entered by the Court. There is at  
16 least one transcript of the Judge. Beyond that, all we  
17 have is the self-serving testimony of these witnesses  
18 and counsel's representations as to what the magistrate  
19 said. We have no record evidence of that, including no  
20 record evidence of any court approval of any of these  
21 terms of the agreement.

22 Insofar as it being responsive to our case,  
23 there's a big difference, Judge, between our relying on  
24 statements that Schering said in deposition or  
25 investigational hearing and that it made versus

1 Schering trying to affirmatively represent to the Court  
2 exactly what the tenor was of its conversations with  
3 the magistrate or the magistrate's conversations with  
4 it, more appropriately, very different things.

5 JUDGE CHAPPELL: Well, now, yesterday -- are  
6 you offering this for the truth of the matter or just  
7 the fact that the statements were made?

8 MR. NIELDS: Just the fact that the statements  
9 were made, Your Honor.

10 JUDGE CHAPPELL: Okay, if it's not being  
11 introduced for the truth, it's not substantive  
12 evidence, and there's no jury here, Counselor.

13 MR. ORLANS: I understand.

14 JUDGE CHAPPELL: And I understand that, that's  
15 a trick that trial lawyers use to get something in  
16 front of a jury. We don't have a jury.

17 MR. ORLANS: Well, I understand --

18 JUDGE CHAPPELL: I'm sitting in that role, and  
19 if it's not substantive evidence, it's not going to go  
20 to a decision -- to a ruling in this case. It's not  
21 going to support a ruling if it's not substantive  
22 evidence. If it's not -- if it's not offered for the  
23 truth of the matter, then the test is is it relevant,  
24 is it material, and it's relevant to their defense  
25 based on what they've told me.



1           So, with the understanding it's not being  
2   offered for the truth of the matter, the objection is  
3   overruled.

4           MR. ORLANS: Your Honor, one further objection.

5           It appears from what the witness just said that  
6   he also will be testifying about legal opinions that he  
7   rendered to the magistrate. I think this is an effort,  
8   quite apart from my prior objection, this is an effort  
9   essentially to get in a reliance on advice of counsel  
10  defense through the back door.

11          What Schering is essentially asking Your Honor  
12  to do is to infer that because the witness made a  
13  certain statement or allegedly made a certain statement  
14  to the magistrate, that therefore that represented his  
15  belief and that that became the intent of the company,  
16  that the corporate executives accepted that position.  
17  Otherwise, his statement is entirely irrelevant.

18          In fact, Judge, there would have been no point  
19  in qualifying the witness as an antitrust attorney and  
20  antitrust expert except to the extent that they intend  
21  to make that argument, and clearly I believe that they  
22  do.

23          In that respect, Judge, if you're inclined to  
24  allow this testimony to go on, what we believe that  
25  we're entitled to at a minimum is to obtain discovery

1 and have the Court direct respondents to provide all of  
2 the underlying material that they have thus far  
3 withheld based on reliance on advice of counsel, all of  
4 the work product material, all of the attorney-client  
5 material, because that's the only way we can test the  
6 statements that this man made.

7 He's going to testify that he told the judge  
8 about what was and was not lawful under the antitrust  
9 laws, and he's going to do that not in the guise of  
10 giving a legal opinion but simply that's what he told  
11 the judge.

12 Now, I suggest --

13 JUDGE CHAPPELL: Hang on, Counselor. I don't  
14 need you to re-argue your motion to exclude. We have  
15 already dealt with that.

16 MR. ORLANS: I'm actually not arguing that,  
17 Judge. I think what I'm asking for instead is a  
18 direction to respondents to require them to provide the  
19 material that underlies the statements so that we can  
20 assess whether this really was advice that was given to  
21 the company and whether the company really did, in  
22 fact, rely on it.

23 JUDGE CHAPPELL: Now, in response to your  
24 motion to exclude, the respondents, in the first  
25 sentence or two -- maybe the first sentence, at least

1 the first paragraph -- said they are not asserting a  
2 defense based on advice to client.

3 MR. ORLANS: Unless, Your Honor, you impute  
4 this gentleman's statements to Magistrate Reuter to the  
5 company, then the testimony's irrelevant.

6 JUDGE CHAPPELL: Make the relevant case.

7 MR. NIELDS: Your Honor, we are not relying on  
8 advice of counsel. That is absolutely clear. We have  
9 made that clear from day one and we made it clear in  
10 our papers.

11 I think I've already indicated why we are  
12 offering this testimony. It is directly relevant and  
13 directly refutes many of the assertions that complaint  
14 counsel have made. We are not offering this testimony,  
15 Your Honor, in order to show that Mr. Hoffman rendered  
16 an opinion about the conduct. Indeed, his testimony is  
17 that -- will be that he told Judge Reuter there were  
18 antitrust problems. That will be his testimony.

19 JUDGE CHAPPELL: Well, you're not --

20 MR. ORLANS: Well, that's --

21 JUDGE CHAPPELL: -- not offering him as an  
22 expert witness, are you?

23 MR. NIELDS: No, I'm not, Your Honor.

24 JUDGE CHAPPELL: Then any opinions that he  
25 happens to give here are not going to be considered

1 expert opinions, and they definitely would go -- you  
2 know, the weight of that would be considered or not  
3 considered as the case may be.

4 MR. ORLANS: Except, Judge, that to the extent  
5 that the witness will be testifying that he told the  
6 magistrate there were antitrust problems, the  
7 implication from that is that the company believed that  
8 and acted on that in a way consistent with that and  
9 that that was his advice. Otherwise, there's no point  
10 in offering the testimony.

11 JUDGE CHAPPELL: I haven't heard enough now to  
12 order the respondents to give up privileged information  
13 they have withheld from discovery. So, at this point  
14 your objection is overruled.

15 MR. ORLANS: Thank you, Your Honor.

16 JUDGE CHAPPELL: You are free to re-assert your  
17 objection if you think it's necessary.

18 You may proceed.

19 MR. NIELDS: Thank you, Your Honor.

20 THE WITNESS: I think I was in the middle of an  
21 answer, but --

22 BY MR. NIELDS:

23 Q. Okay, if you could complete it.

24 A. I also expressed to the magistrate that we  
25 didn't want to settle the case, we wanted to try it,

1 and that we had some reservations or doubt about their  
2 having a product that would get FDA approval, which is  
3 another reason it didn't make sense to settle it. I  
4 think those are the topics we covered.

5 Q. Directing your attention to the discussion on  
6 antitrust, can you describe what was said between you  
7 and Judge Reuter on that topic?

8 A. I said, as I indicated, that I had antitrust  
9 concerns. I recall him saying, it was kind of a phrase  
10 of his, "Ah, come on, guy," and he reached either onto  
11 his desk or into his desk drawer and pulled out a news  
12 report about the Hoechst and I think Bayer deals that  
13 were then becoming public in terms of settlements of  
14 patent litigations and exchanges of money, and he said,  
15 "Ah, come on, guy, other people are doing it, you can  
16 do this." And I recall using a -- perhaps a  
17 colloquialism and saying that my mother had taught me  
18 that just because everybody else is doing it doesn't  
19 mean I can do it.

20 He also expressed the view, as I said, that  
21 Schering had a lot to lose and that this was a good  
22 deal or paying money for a settlement would be a good  
23 deal for both the parties, and I said that that was not  
24 the way you looked at it, that you couldn't just  
25 consider the parties. It had to be fair to consumers.

1           Q. And directing your attention to the part of the  
2 conversation that dealt with your question about  
3 whether there was a product that could be approved that  
4 ESI had, can you describe that discussion fully?

5           A. Yes. I didn't know all the details of it,  
6 because when this litigation began, I was not in charge  
7 of the patent litigation function, so I did not -- I  
8 was not on the protective order and didn't have  
9 knowledge of all the documents and testimony in the  
10 case.

11           I did know that based upon the length of time  
12 that had occurred since they had applied for their ANDA  
13 approval and I believe some other documents that had  
14 surfaced in discovery, we had doubts, serious doubts,  
15 about ESI's ability to get FDA approval, and that was  
16 another reason that it didn't make sense for us to  
17 settle this case.

18           Q. Now, did you discuss with Judge Reuter any way  
19 in which Schering might agree to settle the case?

20           A. Yes, I told him that I would be comfortable  
21 with a settlement that, in essence, split the remaining  
22 patent term -- this patent was going to run until  
23 2006 -- split that term to roughly reflect the merits  
24 of the litigation or the opportunities for success.

25           MR. ORLANS: Objection, Your Honor. Again,

1     what the witness has done is offered an opinion  
2     regarding splitting the patent in accordance with the  
3     probability of success. We have tried, without  
4     success, to obtain from the respondents their internal  
5     estimates of their likelihood of success in this  
6     litigation, and that has been withheld from us on the  
7     grounds of privilege.

8             Again, what this witness is trying to do and  
9     what respondent is trying to do is to obtain this  
10    material through the back door of having this witness  
11    say that that's what he told the magistrate. And  
12    again, I would ask the Court to either strike the  
13    testimony or to direct the respondents to provide us  
14    with all of those underlying materials reflecting their  
15    internal estimates of the likelihood of success of the  
16    litigation.

17            JUDGE CHAPPELL: Response?

18            MR. NIELDS: Your Honor, I think we covered  
19    this in our brief. The line that is drawn by the case  
20    law is quite clear and quite clean. Conversations that  
21    a lawyer has with opposing counsel or third parties,  
22    including conversations involved in settlements, are  
23    not privileged. We have no basis to claim privilege,  
24    and we did not claim privilege, and complaint counsel  
25    has had a full and unrestricted access to inquire of

1 Mr. Hoffman on that subject, and they have done so.

2 MR. ORLANS: Judge, that's not the point. I'm  
3 sorry.

4 MR. NIELDS: I haven't finished.

5 The conversations that a client -- a lawyer has  
6 with his client and mental impressions and opinions  
7 about the case are privileged, and we have asserted  
8 that privilege. We have been rigorous about asserting  
9 it, and we have not waived it.

10 MR. ORLANS: Your Honor, that's not --

11 MR. NIELDS: And all Mr. Hoffman has testified  
12 to, Your Honor, here is that he posed a methodology  
13 that could be used to settle the case.

14 MR. ORLANS: The point here, Your Honor, is  
15 that -- is not whether they've correctly asserted the  
16 privilege. We assume that they have. The point is  
17 that they can't then have a witness testify in such a  
18 way as to use the privilege as a sword and a shield.

19 Clearly they're going to be using this  
20 gentleman's testimony as a way of indicating that the  
21 case was settled consistent with the likelihood of  
22 success of the patent litigation, and that's the  
23 inference that they're going to try to draw here. Once  
24 they've opened that door, either the privilege is  
25 waived or, in the alternative, the testimony should be



1 stricken.

2 I don't object to their right to assert the  
3 privilege, but I do object on grounds of completeness  
4 to them putting a witness on the stand to try to walk  
5 this line and open the door only part way.

6 JUDGE CHAPPELL: Well, the answer was he told  
7 the judge that the patent was going to run until 2006,  
8 to split that term to roughly reflect the merits of the  
9 litigation. You find that statement surprising, Mr.  
10 Orlans?

11 MR. ORLANS: I find that statement surprising  
12 in the sense that given the payment that was involved  
13 in this, we do not believe that the patent was split  
14 consistent with the parties' estimates of the  
15 likelihood of success in the litigation. We think it  
16 was split to be a later date than the parties would  
17 have estimated based on a situation where no payment  
18 had been made. So, yes, Your Honor, I do find that  
19 surprising.

20 JUDGE CHAPPELL: And your argument is that  
21 respondents are going to try to make the case that this  
22 witness told a judge something, and then there's  
23 supposed to be some implication that the client did  
24 something based on that without --

25 MR. ORLANS: Correct, Your Honor.

1 JUDGE CHAPPELL: -- without proving to me the  
2 direct link to the client?

3 MR. ORLANS: Correct.

4 JUDGE CHAPPELL: I don't think that formula  
5 adds up, Mr. Orlans, and I'll tell you that right now  
6 and I'll tell them that right now. So, your objection  
7 is overruled.

8 BY MR. NIELDS:

9 Q. At the end of your two meetings with Judge  
10 Reuter, was there any form of settlement?

11 A. No, sir.

12 Q. Now, you said you were on a telephone  
13 conference call with Judge Reuter at a later time.

14 A. That's correct.

15 Q. Was that the day when the settlement in  
16 principle was actually reached?

17 A. Yes.

18 Q. And do you happen to remember what the date  
19 was?

20 A. It was at the end of January 1998. I don't  
21 have the particular date in mind.

22 Q. Now --

23 A. It was a Friday, I recall, if that helps.

24 Q. And what time of day was it?

25 A. It was in the evening. I was at home. I think

1 roughly 6:30 or 7:00 until 8:30 or 9:00.

2 Q. And where was Judge Reuter?

3 A. In his chambers, as were people from Schering  
4 and ESI.

5 Q. And who else was involved in conversations that  
6 you were a party to that evening?

7 A. Mr. Driscoll was on the phone both with me and  
8 the magistrate and on occasion with the magistrate  
9 directly. He was the head of Key at the time.

10 Q. And where was he at the time?

11 A. He was at the Nets -- a New Jersey Nets game  
12 with his two -- with at least two of his sons on his  
13 cell phone.

14 Q. And who else was involved, or have you covered  
15 everyone?

16 A. I think I've covered everybody.

17 Q. Now, can you describe what was said on the  
18 subject of settlement during those discussions that you  
19 were actually involved with?

20 A. The date, September -- excuse me, January 1,  
21 2004, was mentioned, although it wasn't negotiated that  
22 night.

23 Q. When you say "mentioned," do you mean it was  
24 already agreed?

25 A. Yeah. That was said in the context of there

1 will be a royalty-free license on January 1, 2004. The  
2 judge still was advocating that Schering should pay  
3 some money.

4 Q. Was there discussion of the status of the  
5 license conversations?

6 A. That was also mentioned, that we would be  
7 licensing two products, enalapril and buspirone, for  
8 \$15 million, but again, that wasn't negotiated that  
9 night. That was just a term that had been agreed to.

10 As I said, the judge was advocating that we  
11 should pay money. We were saying we didn't want to do  
12 that. And eventually he said something like, well,  
13 certainly, Mr. Hoffman, you can pay them their legal  
14 fees, like \$5 million, and we acceded to that.

15 Then, after a conversation between the  
16 magistrate and Mr. Driscoll that I wasn't a party to, I  
17 had a further conversation with Judge Reuter in which  
18 he brought up the subject of the FDA approval issue and  
19 said that he wanted us to place a bet, I think his term  
20 was, put your money where your mouth is. And what  
21 evolved from that was a bet, if you will, based on the  
22 timing of the approval of their ANDA, if they received  
23 that by the FDA, in which if they received it before a  
24 certain date -- and I think it was June of 1999, if I  
25 recall correctly -- they would get \$10 million, then

1 step down to \$5 million after that date, and I think in  
2 yearly increments it stepped down by half until it  
3 disappeared, and his point to me was, Mr. Hoffman, if  
4 you're right about their FDA approval status, this  
5 won't cost you anything. And we acceded to that term  
6 at Judge Reuter's urging.

7 Q. And did that mean that there was a settlement?

8 A. At that point, I think that was the last term  
9 to fall into place, and there was a settlement. And I  
10 recall that at that point all the participants in Judge  
11 Reuter's chambers were together, he had called them all  
12 in together, and I was on the phone, he congratulated  
13 us, talked about writing up the principal terms that  
14 had been reached on a sheet of paper in his chambers,  
15 people initialing it or signing it that night, and  
16 thank you very much, and good night.

17 Q. Mr. Hoffman, just one other question. Did  
18 Schering or Key ever sue a company called Andrx  
19 regarding a possible generic version of K-Dur that  
20 Andrx had in development?

21 A. No, sir. We received a Paragraph IV ANDA  
22 certification, but we didn't sue them.

23 MR. NIELDS: Your Honor, I have no further  
24 questions of Mr. Hoffman.

25 JUDGE CHAPPELL: Does Upsher-Smith intend to

1 question this witness?

2 MR. CURRAN: No, Your Honor. Our  
3 understanding, I believe accurate, is that Mr. Hoffman  
4 will be coming back to testify with respect to the  
5 Upsher-Smith/Schering settlement at a later date. So,  
6 we will reserve any questions until that point in time.

7 JUDGE CHAPPELL: Okay. So, all the attorneys  
8 are aware of this agreement?

9 MR. CURRAN: Yes, Your Honor.

10 JUDGE CHAPPELL: Okay. You may proceed with  
11 your cross.

12 CROSS EXAMINATION

13 BY MR. ORLANS:

14 Q. Mr. Hoffman, if I understood you correctly,  
15 it's your testimony that most of the operative terms of  
16 this final agreement came from the magistrate. Is that  
17 right?

18 A. They were discussed with the magistrate. The  
19 terms that I would say came from the magistrate were  
20 the payment of \$5 million in the nature of legal fees  
21 and the bet.

22 Q. So, all the compensation, all the consideration  
23 set forth in the settlement agreement came from the  
24 magistrate. Is that your testimony?

25 A. No -- well, it depends on how you count the \$15

1 million for the licenses. That was not coming from the  
2 magistrate.

3 Q. But in terms of the consideration set forth in  
4 the settlement agreement as opposed to the license  
5 agreement, that was all from the magistrate. Is that  
6 right?

7 A. Urged upon us by the magistrate, that's  
8 correct.

9 Q. Now, your job at Schering is to oversee  
10 litigation, including patent litigation, correct?

11 A. Currently, yes.

12 Q. Okay. And when your supervisory  
13 responsibilities were extended to include patent  
14 litigation, was that in '96 or '97?

15 A. I believe it was in '96.

16 Q. '96? So, from '96 on, you were involved as a  
17 supervisor in the ESI litigation. Is that correct?

18 A. I supervised the person who directly supervised  
19 that litigation, that's correct.

20 Q. And at the time that you became a supervisor of  
21 that litigation, did you review the file or the  
22 preceding material to familiarize yourself, bring  
23 yourself up to speed?

24 A. I don't believe I did what you described, no.

25 Q. You didn't?

1 A. No.

2 Q. So -- okay. So, you're only familiar with the  
3 ESI litigation from the time in '96 when you started to  
4 supervise it?

5 A. That's the first time I had focused on it.

6 Q. Okay. And do you remember when in '96 that  
7 was?

8 A. It was the spring of '96.

9 Q. Okay. Now, you negotiated the ESI settlement  
10 after you had negotiated the Upsher settlement. Is  
11 that correct?

12 A. My involvement was after, that's correct.

13 Q. Well, and in fact, the ESI settlement was  
14 tentatively reached with the magistrate judge in  
15 January of '98, whereas the Upsher settlement had been  
16 finally reached with the parties in June of '97. Isn't  
17 that correct?

18 A. I believe that's correct, yes.

19 Q. Okay. So, in settling the ESI litigation, you  
20 were able to draw on your experience in settling the  
21 Upsher litigation, correct?

22 A. I suppose I could have.

23 Q. Well, let me ask you this: Isn't it also true  
24 that prior to settling with Schering, that ESI was also  
25 aware of the Upsher litigation and the results of that



1 litigation?

2 A. I believe so.

3 Q. Well, in fact, sir, didn't Schering provide ESI  
4 with a summary of the terms of the Upsher settlement?

5 A. Thank you, that does remind me. There was a  
6 fight over giving them the settlement agreement, and I  
7 think you're right, I think we gave them a summary of  
8 the terms instead.

9 Q. Okay. And sir, just so that there will be no  
10 mistake about it, let me, as long as you have your book  
11 in front of you, ask you to turn to tab 17, and that's  
12 identified as CX 463. Do you see that, sir?

13 A. Yes. I haven't looked at all of it, but yes, I  
14 have the document, yes.

15 Q. Okay. And if you skim through that document,  
16 that document is the summary that ESI was provided  
17 about the Upsher agreement, is it not?

18 A. It -- it could be. I don't -- I don't know,  
19 but it could be. It's some --

20 Q. You have no reason -- I'm sorry.

21 A. -- it's something like this.

22 Q. Okay. You have no reason to doubt that that's  
23 it?

24 A. I just don't know. This is one prepared by  
25 Paul Heller at our opponent's counsel, and I don't know

1       whether Mr. Herman had some comments to it or not.

2           Q.   Okay.

3           A.   I just don't know.

4           Q.   So, isn't it true, sir, that at the time that  
5       ESI was finalizing a settlement with Schering, that ESI  
6       was aware that Schering had settled its case with  
7       Upsher and made an up-front payment? To Upsher, that  
8       is.

9           A.   Made an up-front payment for a product, yes.

10          Q.   And ESI was also aware that Upsher had reached  
11       a negotiated entry date of September 1, 2001 with  
12       Schering. Isn't that right?

13          A.   I believe that's correct, yes.

14          Q.   Schering sells other prescription drugs besides  
15       K-Dur. Isn't that correct?

16          A.   Several.

17          Q.   Okay. Approximately how many branded  
18       prescription drugs does Schering sell?

19          A.   Frankly, I don't have an idea of that.

20          Q.   Are we talking about 100, 50? Do you have any  
21       sense?

22          A.   My sense is -- and it depends on how you count  
23       them, but my sense is if you took the chemical  
24       entities, it would be less than 100 but greater than  
25       30, but I have never counted them.

1           Q. Are you currently supervising any patent  
2 litigation, infringement litigation, with first filers  
3 in connection with any of Schering's other branded  
4 pharmaceuticals?

5           A. Yes.

6           Q. And which are those, sir?

7           A. We have some cases involving Claritin, I think  
8 fairly widely publicized, and we have some cases  
9 involving a drug call Rebetol.

10          Q. I'm sorry?

11          A. Rebetol.

12          Q. I know what Claritin is. What is Rebetol?

13          A. Rebetol is -- its generic name is ribavirin.  
14 It's an antiviral. It's used in combination with our  
15 Intron A, interferon, and PEG-Intron in the treatment  
16 of hepatitis C.

17          Q. Other than those two, are there any others, or  
18 is that all that you can recall at the time?

19          A. I think today that that's the -- the series of  
20 Claritin litigations and I think the two Rebetol  
21 litigations.

22          Q. Is it fair to say, sir, that this sort of  
23 patent litigation is a recurring problem, a recurring  
24 issue?

25          A. It's a recurring issue, yeah.

1           Q. Sir, I take it in your career as a lawyer  
2     you've engaged in a fair number of negotiating  
3     sessions. Is that fair?

4           A. I believe that's correct, yes.

5           Q. Okay. I'd like to ask you a few questions just  
6     drawing on your general experience as a negotiator.

7                 In the course of negotiating with the other  
8     side, do you typically tell the other side the complete  
9     truth about everything?

10          A. That really depends on the negotiation. There  
11     are occasions when you may posture some, and there are  
12     occasions when you don't.

13          Q. Okay. And have you ever started out  
14     negotiating with one position and then ended up at the  
15     end of the negotiation essentially taking a very  
16     different position?

17          A. I don't believe on a legal position I can  
18     recall such an occasion. If you're asking have I at  
19     the beginning of a negotiation said I want to pay  
20     \$100,000 and I've ended up paying \$1,100,000, that  
21     certainly has occurred.

22          Q. That's happened to you. So, what you tell the  
23     other side about what you're willing to do and what you  
24     end up doing may be two very different things. Isn't  
25     that correct?

1 A. That's occurred.

2 Q. Aside from this case, sir, did anyone ever tell  
3 you that -- strike that.

4 Aside from this case, did you ever tell anyone  
5 that what they were proposing would violate the law?

6 A. I will answer that yes.

7 Q. Okay. And has anyone ever told you that your  
8 client's proposal would violate the law?

9 A. I don't recall that.

10 Q. Okay. Do you know how many total meetings  
11 Schering had with the magistrate?

12 A. No. My sense is around four or five, but I  
13 don't -- on the subject of mediating the settlement --

14 Q. Correct.

15 A. -- as opposed to discovery disputes and the  
16 like?

17 Q. Right, that's right.

18 A. My sense is around four to five, but I don't  
19 know.

20 Q. And you participated in you think two of those  
21 personally and one, the last one, by telephone. Is  
22 that correct?

23 A. That's correct.

24 Q. And the first one you attended was that  
25 October -- was that October 9th? I'm sorry.

1           A. I believe it was October 27th. We can check  
2 the document.

3           Q. But it was in October?

4           A. And I believe that was the first one. Again,  
5 I'm not entirely clear, but I believe that was the  
6 first one.

7           Q. Now, at that session, ESI told you that they  
8 wanted a great deal of money. Is that correct?

9           A. That's correct.

10          Q. Do you remember how much they asked --

11          A. Actually, to be fair, I don't -- I believe it  
12 was Magistrate Reuter told us that ESI wanted a great  
13 deal of money, but I can't swear in that conversation  
14 that ESI said that.

15          Q. Do you remember how much money?

16          A. I believe the number was \$100 million.

17          Q. And that \$100 million that ESI requested was  
18 for it to stay off the market for some period of time.  
19 Is that correct?

20          A. I believe that's correct.

21          Q. So, ESI told you they wanted to be paid \$100  
22 million for delay, right?

23          A. Yes.

24          Q. Okay. And the explanation that ESI gave you  
25 for the \$100 million figure was that that was what

1 Schering would lose if ESI came in. Is that right?

2 A. I don't recall there being any precision to  
3 that. It was you have a lot to lose.

4 Q. And the magistrate also told you you had a lot  
5 to lose?

6 A. That's correct.

7 Q. Did either ESI or the magistrate ever explain  
8 to you where the \$100 million came from or what they  
9 meant by "a lot to lose"?

10 A. I don't believe to me, no.

11 JUDGE CHAPPELL: Mr. Orlans, excuse me, are you  
12 finished with that exhibit?

13 MR. ORLANS: I'm sorry, Your Honor?

14 JUDGE CHAPPELL: Are you finished with that  
15 exhibit?

16 MR. ORLANS: Yes. Did you want me to take this  
17 off?

18 JUDGE CHAPPELL: Yes, please.

19 MR. ORLANS: Surely.

20 BY MR. ORLANS:

21 Q. Now, you say that you told ESI that it was not  
22 appropriate to pay people to stay off the market. Is  
23 that right?

24 A. I'm sure I said that to ESI. I remember more  
25 so me saying that to Judge Reuter.

1           Q. You said it to both of them, both ESI and Judge  
2   Reuter?

3           A. I believe that's correct.

4           Q. And in making that statement, you referenced  
5   the antitrust laws. Is that correct?

6           A. That's correct.

7           Q. Isn't it true, sir, that one of the ESI  
8   attorneys responded to you at some point that they  
9   could work that out, that that wouldn't be a problem?

10          A. Excuse me, could you repeat that?

11          Q. Yeah, that one of the ESI attorneys at some  
12   subsequent point in response to your concern said that  
13   they could work that out, that it wouldn't be a  
14   problem?

15          A. Or words to that effect, yes.

16          Q. Mr. Hoffman, isn't it true that Schering has  
17   refused on grounds of privilege to produce any of its  
18   internal estimates of the probability of success in the  
19   patent litigation?

20                 MR. NIELDS: Your Honor, that is certainly what  
21   we've said here in open court and in our papers. I'm  
22   not sure that's a question for this witness.

23                 MR. ORLANS: Well, if he can answer it, I'd be  
24   interested. I would like to make a record on this,  
25   Your Honor.



1 JUDGE CHAPPELL: Overruled.

2 THE WITNESS: I believe you're correct, yes.

3 BY MR. ORLANS:

4 Q. Isn't it also true that Schering has refused on  
5 grounds of privilege to provide any information at all  
6 about the legal advice that you and other Schering  
7 lawyers gave the company or the responses of the  
8 company executives to that legal advice?

9 A. I believe we've asserted a privilege on that,  
10 yes.

11 Q. So, on this record, we have no way of knowing  
12 what legal advice you actually gave Schering. Is that  
13 right?

14 A. I believe that's correct.

15 Q. And nor do we have any way of knowing whether  
16 the company followed your legal advice. Isn't that  
17 also right?

18 A. I believe that's correct.

19 Q. More specifically, Mr. Hoffman, either before  
20 or after you told ESI that you wouldn't pay for delay,  
21 did you have discussions with any Schering executives  
22 about that?

23 MR. NIELDS: Objection, privilege, Your Honor.

24 MR. ORLANS: Your Honor, whether or not he had  
25 discussions is not privileged. The substance of the

1 discussions may well be.

2 MR. NIELDS: Your Honor, this just has  
3 absolutely no relevance other than for Mr. Orlans to be  
4 trying to draw some inference from the fact of  
5 conversations, and that is privileged. He's just  
6 getting into privileged material, and there is no other  
7 way to look at it.

8 MR. ORLANS: The fact of conversations is  
9 certainly not privileged. The content of the  
10 conversations is privileged.

11 JUDGE CHAPPELL: To the extent this witness has  
12 knowledge, has information and can answer these  
13 questions, it's fair cross examination. Overruled.

14 THE WITNESS: Could I have the question --

15 MR. ORLANS: Would you like the question  
16 repeated?

17 THE WITNESS: Please.

18 MR. ORLANS: Would the reporter read it back?

19 JUDGE CHAPPELL: And again, the question was  
20 did you have discussions. We're not getting into the  
21 discussions.

22 MR. ORLANS: Correct.

23 JUDGE CHAPPELL: Proceed.

24 (The record was read as follows:)

25 "QUESTION: More specifically, Mr. Hoffman,

1       either before or after you told ESI that you wouldn't  
2       pay for delay, did you have discussions with any  
3       Schering executives about that?"

4               THE WITNESS:   Yes.

5               BY MR. ORLANS:

6               Q.   And again, you've refused on the grounds of  
7       privilege to divulge the contents of those  
8       communications.  Is that correct?

9               A.   That's correct.

10              Q.   And sir, if I ask you today to describe for me  
11      all of the conversations -- well, let me ask you.

12              Would you describe for me the conversations  
13      that you had on that subject?

14              MR. NIELDS:  Objection, privilege.

15              JUDGE CHAPPELL:  That's sustained.

16              BY MR. ORLANS:

17              Q.   In fact, sir, haven't you refused to provide  
18      any of your communications with Schering personnel or  
19      representatives except those that took place in the  
20      presence of third parties?

21              A.   Yes.

22              Q.   Did Schering seek any outside legal advice on  
23      the antitrust ramifications of paying money to ESI in  
24      connection with setting an entry date?

25              MR. NIELDS:  Based on the Court's ruling, I

1 don't have an objection to that question. Obviously I  
2 will object if he asks about the substance of those  
3 communications.

4 MR. ORLANS: Understood.

5 JUDGE CHAPPELL: Okay.

6 THE WITNESS: The answer is yes.

7 BY MR. ORLANS:

8 Q. And from whom did Schering seek such advice?

9 A. If I'm going to answer that, I'd like to have  
10 the question back again to make sure I get it right.

11 Q. Sure.

12 Would the reporter read it back, please?

13 (The record was read as follows:)

14 "QUESTION: Did Schering seek any outside legal  
15 advice on the antitrust ramifications of paying money  
16 to ESI in connection with setting an entry date?"

17 THE WITNESS: On that question, Rick Rule.

18 BY MR. ORLANS:

19 Q. And more generally, let me ask and take a step  
20 backwards, did Schering seek outside legal advice on  
21 the antitrust ramifications of the ESI settlement with  
22 anyone other than Mr. Rule?

23 A. Yes.

24 Q. Okay. And who were those attorneys?

25 A. Bill Henry, then I believe of Collier Shannon,

1 and Jim Rill of Collier Shannon I believe at that time.

2 JUDGE CHAPPELL: Sir, what did you say, Jim  
3 who?

4 THE WITNESS: Rill.

5 JUDGE CHAPPELL: Thank you.

6 BY MR. ORLANS:

7 Q. Let's talk about Mr. Rule. Did he provide you  
8 with oral advice or written advice?

9 A. Oral.

10 Q. And over what period was that advice provided,  
11 do you recall?

12 A. I don't.

13 Q. Did Mr. Rule review any drafts of the agreement  
14 with ESI before the settlement was finalized?

15 MR. NIELDS: Your Honor, that seems to me that  
16 it goes beyond. I think that goes beyond. I think  
17 that gets into a privilege, and I object to it.

18 JUDGE CHAPPELL: I agree. That's sustained.

19 BY MR. ORLANS:

20 Q. Mr. Hoffman, did you provide Schering with  
21 legal advice on the subject of whether it could pay  
22 money to ESI in settling this case with a date for  
23 entry?

24 MR. NIELDS: Again, based on the Court's  
25 ruling, I don't object to the yes or no question. I

1 will object obviously to any substance.

2 THE WITNESS: Yes, I did.

3 BY MR. ORLANS:

4 Q. Did any other in-house attorneys provide such  
5 legal advice?

6 A. Not that I know of.

7 Q. Was your advice oral or in writing, sir?

8 A. Oral.

9 Q. And just for the record, what advice did you  
10 provide to Schering?

11 MR. NIELDS: That's -- objection, privileged.

12 JUDGE CHAPPELL: Sustained.

13 BY MR. ORLANS:

14 Q. On direct, sir, I understood you to say that  
15 ESI and Schering had agreed on an entry date before the  
16 final settlement conference with Magistrate Reuter. Is  
17 that right?

18 A. That's correct.

19 Q. Let me ask you to turn to tab 28, which is  
20 CX 470.

21 A. Twenty-eight?

22 Q. Yeah.

23 A. I have it.

24 Q. Okay. In fact, in that document, sir, which  
25 was a December 17, 1997 letter from Mr. Herman

1       representing Schering, in this letter Schering proposes  
2       December 31, 2003 as the date. Is that correct?

3           A. Yes.

4           Q. Okay. Now, let me ask you to turn one tab back  
5       to tab 29, which is CX 473.

6           A. I have that.

7           Q. Okay. And in response to Schering's offering  
8       of the date of December 31, didn't Mr. Heller on behalf  
9       of ESI indicate that the date should be December 31,  
10      2003 or whenever a generic is placed on the market,  
11      whichever occurs earlier?

12          A. That's what it says here, yes.

13          Q. Okay. So, Schering proposed December 31, 2003,  
14      and ESI came back and said either that date or whenever  
15      a generic is placed on the market, whichever is  
16      earlier.

17          A. That's what this exchange of correspondence  
18      shows.

19          Q. Okay. Do you know, sir, whether Schering prior  
20      to the final settlement conference got back to ESI on  
21      this counterproposal and said, okay, we'll take  
22      December 31 or the generic -- when the first generic  
23      comes in, whichever is earlier, or did that happen at  
24      the final settlement conference?

25          A. I don't believe either of those things

1       happened.

2           Q.   Okay.  What did happen?

3           A.   I don't believe this term, as stated here, is  
4       in the final agreement.

5           Q.   Okay.  So, the final agreement, in fact, used  
6       January 1, 2004?

7           A.   It doesn't contain the term "or whenever a  
8       generic is placed on the market."

9           Q.   Okay.  So, from this correspondence, there  
10      really wasn't agreement on the date.  Is that correct?

11          A.   From this correspondence, that's correct.

12          Q.   Okay.  When did you reach agreement with ESI on  
13      the entry date?

14          A.   Sometime between the exchange of correspondence  
15      and the final conversation with the magistrate.

16          Q.   And how do you know that, sir?

17          A.   Because when we had the final conversation with  
18      the magistrate, it was not negotiated or discussed.  It  
19      was simply a fact that that was the -- the agreed-upon  
20      date, January 1 of 2004.

21          Q.   Let me show you some of the pages of your  
22      investigational hearing, sir.  At page 121, you were  
23      discussing it -- and if you would like to look at --  
24      well, actually, you can.  Let me give you a copy and  
25      you can look at it.



1           A. Thank you.

2           Q. Now we can look at a marked-up copy on the  
3 ELMO.

4                   Now, you were talking there, sir, about what  
5 happened prior to the meeting, the final meeting with  
6 Magistrate Reuter, right?

7           A. Is that correct? I'm not sure from looking at  
8 this, but -- where do you draw that conclusion, if you  
9 may help me?

10          Q. Well, you begin to talk at the bottom of page  
11 122 about the final discussion with the magistrate. Do  
12 you see that?

13          A. I don't know if that's where I begin to talk  
14 about it. I don't mean to quibble with you, but at the  
15 bottom of page 120, it seems the lead-in is at the time  
16 of these discussions with the magistrate. So, I'm not  
17 entirely clear --

18          Q. Okay.

19          A. -- what was being addressed at that exact point  
20 in the investigational hearing.

21          Q. Okay. Well, let's focus, then, on the bottom  
22 of page 122 and top of page 123, and on page 123,  
23 didn't you testify as follows:

24                   "QUESTION: By the end of that meeting, had the  
25 amount for the licenses been agreed upon between ESI

1 and Schering?

2 "ANSWER: Yes.

3 "QUESTION: At the end of the meeting with the  
4 magistrate, were there any other terms that still  
5 remained to be worked out between ESI and Schering, at  
6 least in concept?

7 "ANSWER: Well, we had agreed on the date for  
8 them to come on the market, the licenses and their  
9 territories, the royalties and payments for those  
10 licenses and what I called the bet before."

11 A. That's correct.

12 Q. Okay. Well, let me ask you this, sir:  
13 Regardless of when Schering and ESI agreed on a date  
14 for entry, this was still only one term of the  
15 agreement. Isn't that right?

16 A. That's correct.

17 Q. Okay. So, you didn't walk away at that point;  
18 you still had to negotiate other terms, including the  
19 consideration to be paid, correct?

20 A. At what point, at the point at which the term  
21 of the date --

22 Q. Correct.

23 A. Yes, the magistrate, as I said, in the last  
24 meeting was still pressing us to pay money.

25 Q. So, it was at the final meeting with the

1 magistrate that you still had to resolve the question  
2 of the amount of money that Schering would have to pay  
3 for this entry date, isn't -- and for the other terms  
4 of the agreement, correct?

5 A. We had to resolve the amount of money to pay in  
6 connection with the settlement.

7 Q. And the final settlement was where you agreed  
8 to those payments along with some other terms, right?

9 A. That's correct.

10 Q. Now, under the settlement agreement -- and I'm  
11 just talking about the settlement agreement, sir, for  
12 the time being --

13 A. Okay.

14 Q. -- under the settlement agreement, Schering  
15 paid money to ESI to settle the patent suit, correct?

16 A. Yes.

17 Q. And the consideration there was a \$5 million  
18 noncontingent payment, an up-front payment, and then an  
19 additional \$10 million or up to \$10 million of what  
20 you've characterized as the bet. Is that correct?

21 A. Yes.

22 Q. Let's talk about the \$5 million for just a few  
23 minutes. You said that was for ESI's attorneys' fees.  
24 Is that right?

25 A. That's the way Judge Reuter characterized it.

1 Q. Where did the \$5 million number come from?

2 A. Judge Reuter.

3 Q. So, you had no basis from ESI for knowing that,  
4 in fact, their attorneys' fees were \$5 million?

5 A. No basis from ESI, no.

6 Q. All you had was Magistrate Reuter's telling you  
7 that \$5 million was the appropriate amount.

8 A. I wouldn't say that either.

9 Q. Well, let me ask you this, sir: When you were  
10 settling with Upsher, hadn't you estimated their  
11 attorneys' fees at somewhere between \$2 and \$3 million?

12 A. We could have. I don't recall that  
13 particularly, but we could have.

14 Q. Under what you've referred to as the bet, ESI  
15 would receive \$10 million from Schering if the FDA  
16 issued an approval letter before June 30, 1999. Is  
17 that right?

18 A. I believe it was June 1999. I don't recall the  
19 particular -- whether it was June 1st or June 30.

20 Q. Okay. And Schering would pay \$5 million if the  
21 FDA issued the approval letter before December 31st,  
22 1999, right?

23 A. Subject to confirming that that's the date in  
24 the agreement, that's my memory, yes.

25 Q. And \$2.5 million if the approval letter was

1 issued in 2000?

2 A. Again, I believe that's correct.

3 Q. Okay. \$1.25 million if the approval came in  
4 2001? Sounds right?

5 A. It sounds right.

6 Q. Okay. And \$625,000 if the approval letter came  
7 in 2002?

8 A. You know, I don't recall we went down to  
9 \$625,000, but on that one I'll take your word for it.

10 Q. Okay. And this bet has absolutely nothing to  
11 do with ESI's attorneys' fees or litigation costs.  
12 Isn't that right?

13 A. I would say that's correct.

14 Q. So, under the settlement agreement, Schering  
15 would pay more if FDA approval was attained than if  
16 such approval were not forthcoming, right?

17 A. Correct.

18 Q. And that was because you told the magistrate  
19 that you didn't think they had a product, right?

20 A. I said that and others from the Schering  
21 litigation team said that in my presence to the judge,  
22 yeah.

23 Q. But this agreement doesn't just bet on whether  
24 the ESI product would receive FDA approval; it bets on  
25 how quickly that approval will be received. Isn't that

1 correct?

2 A. That's correct.

3 Q. So, the quicker that ESI's 20 mEq product  
4 cleared regulatory hurdles, the more Schering would  
5 have to pay. Isn't that right?

6 A. Correct.

7 Q. And conversely, the longer it took to clear  
8 FDA, the less Schering would have to pay.

9 A. I believe that's a truism, yes.

10 Q. So, the amount of the payment was tied to how  
11 close the product was to going on the market. Isn't  
12 that right?

13 A. In an ethereal sense, yes. I mean, nobody knew  
14 that, so yes.

15 Q. But the regulatory hurdle was one they  
16 certainly would have to overcome to get on the market.

17 A. That certainly is correct.

18 Q. And the closer the product was to market, the  
19 more Schering had to pay under this agreement, right?

20 A. Yes.

21 Q. In fact, sir, ESI received an approval letter  
22 from the FDA quickly enough that Schering had to pay  
23 the full \$10 million, correct?

24 A. I think they beat the deadline by nine days,  
25 but the answer is yes.

1           Q. Who would ultimately have tried the  
2     ESI-Schering patent case, the magistrate or -- the  
3     magistrate judge or the district judge?

4           A. Recalling that we had been told repeatedly he  
5     wasn't going to try it, it would have been the district  
6     judge.

7           Q. Okay. And you never had any settlement  
8     discussions with the district judge, did you?

9           A. I did not, no.

10          Q. All of those conversations with the court were  
11     with the magistrate judge?

12          A. All of my conversations were with the  
13     magistrate judge.

14          Q. When antitrust concerns were raised with the  
15     magistrate judge, did anyone in your presence ever tell  
16     the magistrate that court approval would not confer  
17     antitrust immunity on a settlement agreement between  
18     ESI and Schering?

19          A. I don't recall that, no.

20          Q. Mr. Hoffman, in your litigation experience,  
21     you've certainly come across judges and magistrates who  
22     have banged attorneys' heads together in an effort to  
23     settle the case, haven't you?

24          A. Yes, sir.

25          Q. Not an uncommon experience, is it?

1           A. It is not an uncommon experience.

2           Q. And you and I can both agree that nobody wants  
3 to deliberately anger a district court judge or a  
4 magistrate judge, right?

5           A. We can agree on that.

6           Q. Okay. But sometimes parties simply can't reach  
7 agreement, even when a judge or magistrate is applying  
8 strong pressure to settle. Isn't that true?

9           A. I suppose, yes.

10          Q. And when parties in good faith can't reach  
11 agreement, the judge has to try the case, doesn't he?

12          A. I'm not quite familiar with all the  
13 administrative rules, but I think you're probably  
14 correct, at some point.

15          Q. You've never had that experience where a judge  
16 pushed and pushed and then kind of threw his hands up  
17 and said, all right, I guess I'm going to have to try  
18 this?

19          A. I don't think I've ever had a case where a  
20 judge exerted this sort of pressure and the parties  
21 didn't reach settlement, but I may be wrong on that.

22          Q. Did the magistrate ever tell you that the party  
23 that resisted settlement would be penalized by a less  
24 favorable result?

25          A. I don't believe he said that, no.



1           Q. Did the magistrate ever tell you that the judge  
2 would refuse to try a case that needed to be tried?

3           A. He told us he wasn't going to try this case. I  
4 don't know if that is responsive to your question, but  
5 he certainly told us that.

6           Q. There was a transcript of the District Court  
7 proceedings, including the Markman hearing, wasn't  
8 there, sir?

9           A. Yes.

10          Q. And let me point you to page 11 of that  
11 transcript. This was on January 21, 1998. Didn't the  
12 district judge say, and I quote:

13                   "And I'm telling you, as I have told you  
14 before, we're going forward with this Markman hearing.  
15 I do not expect the case to settle from this point on.  
16 If you have been horsing around with respect to  
17 settlement up to this point, you have waited too long.  
18 I expect this case to go now. I have invested the  
19 time, we're launched."

20                   Do you see that, sir?

21          A. That's what it says at that point in the  
22 transcript, yes.

23          Q. And that's what the district judge said, was it  
24 not?

25          A. I believe so. It's on the transcript.

1           Q.   Okay.  The district judge never told you he  
2   wouldn't hear the case, did he?

3           A.   Never told me, that's correct.

4           Q.   So, it's your testimony that the magistrate  
5   judge told you that the district judge wouldn't try the  
6   case.  Is that right?

7           A.   That's what I've said, yes.

8           Q.   Wasn't such a result, that is, putting the case  
9   on hold indefinitely, wasn't that actually in  
10   Schering's interests?

11          A.   I don't know that that was the case at all.

12          Q.   Well, wouldn't delay in the resolution of the  
13   patent suit benefit Schering by keeping ESI off the  
14   market or at least raising the risk before it would  
15   consider going on the market?

16          A.   If you assume we're going to lose and you  
17   assume that they don't enter the market after the  
18   expiration of the 30-month stay and you assume that  
19   we're inured to management time and legal fees, I  
20   suppose you could make that point, yes.

21          Q.   Schering and ESI signed an agreement in  
22   principle on January 23rd, 1998.  Is that right, sir?

23          A.   There was a 10 or 11-point sheet that was drawn  
24   up in the magistrate's chambers, which I've seen, and  
25   they discussed doing that --

1 Q. Do you want me to refresh your memory?

2 A. No, that's all right. If that's what you mean  
3 by an agreement in principle, I think it's got the  
4 material terms of the settlement, yes.

5 Q. Right. And that was signed by both of the  
6 parties, right?

7 A. I believe that's correct.

8 Q. Let me see if I have it here just so you can  
9 verify it for me. It's tab 34, CX 472 for the record.  
10 That's essentially the agreement we've been discussing,  
11 is it not, sir? And that was signed by the parties on  
12 January 23rd.

13 A. I believe you're correct. That's Susan Lee who  
14 reported to me and was in the magistrate's chambers  
15 that night.

16 Q. After you reached that agreement in principle,  
17 sir, neither the magistrate nor the District Court ever  
18 put any of those terms into an order, did they?

19 A. No.

20 Q. And the case was dismissed immediately after  
21 that on January 26th, correct?

22 A. That's correct. I don't know the date, but it  
23 was closely thereafter.

24 Q. Finally --

25 A. Conditionally dismissed.

1 Q. I'm sorry?

2 A. Conditionally dismissed.

3 Q. The final settlement was reached about six  
4 months -- five or six months later in June of 1998,  
5 correct?

6 A. That's roughly right, yes.

7 Q. And that final settlement agreement was never  
8 presented to the court, was it?

9 A. No.

10 Q. And consequently, neither the magistrate nor  
11 the district judge ever saw that final settlement  
12 agreement.

13 A. I believe that's correct.

14 Q. And again, consequently, neither the magistrate  
15 nor the district court judge ever approved that final  
16 settlement agreement.

17 A. You are correct.

18 MR. ORLANS: Your Honor, this might be a good  
19 point to take a break. I am going to consolidate my  
20 notes. I don't think I have more than about another 15  
21 or 20 minutes, maybe even less.

22 JUDGE CHAPPELL: How long do you need to  
23 consolidate your notes?

24 MR. ORLANS: Five minutes would be fine.

25 JUDGE CHAPPELL: Why don't you take a couple

1 minutes. I don't want to take a recess yet.

2 MR. ORLANS: Okay.

3 (Pause in the proceedings.)

4 JUDGE CHAPPELL: While we have a pause here, I  
5 have a couple matters I want to go over, a couple  
6 things I want to cover on the record here while Mr.  
7 Orlans is reviewing his notes.

8 I have a Schering-Plough motion for in camera  
9 treatment that was filed on the 31st of January. Does  
10 anyone contest or oppose that motion?

11 MS. BOKAT: No, Your Honor.

12 MR. CURRAN: Not Upsher, Your Honor.

13 JUDGE CHAPPELL: I also last night received a  
14 motion for in camera treatment from AHP. Does anyone  
15 oppose that motion?

16 MR. NIELDS: No, Your Honor.

17 MR. CURRAN: Your Honor, I don't anticipate  
18 opposing it, but I'm reluctant to say I don't oppose  
19 something I haven't read yet.

20 JUDGE CHAPPELL: Could you read that? I need  
21 to get a ruling out on that, Mr. Curran. Could you do  
22 that for me quickly?

23 MR. CURRAN: Yeah, I will have it brought down  
24 here. I will read it during the lunch break, and I  
25 will let you know at the conclusion of the lunch break

1       what my position is.

2               JUDGE CHAPPELL: Thank you.

3               MR. CURRAN: You're welcome.

4               JUDGE CHAPPELL: Ms. Bokat?

5               MS. BOKAT: Would it be acceptable if we gave  
6       you an answer at the conclusion of the lunch break  
7       also, Your Honor?

8               JUDGE CHAPPELL: That's fine, thank you.

9               Whenever you're ready, Mr. Orlans.

10              MR. ORLANS: Okay, I think I can proceed, Your  
11       Honor.

12              BY MR. ORLANS:

13              Q. You mentioned in your direct that a product had  
14       been marketed by Andrx and that you hadn't sued Andrx.  
15       Why is that, sir?

16              A. I don't think I said a product had been  
17       marketed.

18              Q. You had gotten notice of --

19              A. We received a Paragraph IV certification --

20              Q. Okay.

21              A. -- for a K-Dur generic from Andrx.

22              Q. And you didn't sue Andrx after receipt of that  
23       notification?

24              A. That's correct.

25              Q. And why is that, sir?

1           MR. NIELDS: Your Honor, I think I have to  
2     object to that. That sounds like he's trying to get  
3     legal opinion and advice on another matter.

4           MR. ORLANS: I'm not asking for a legal  
5     opinion. I just wondered if the company had a clear  
6     position on it.

7           JUDGE CHAPPELL: The objection is sustained as  
8     it would require the witness to reveal attorney-client  
9     communications or work product; however, the  
10    objection's overruled as to the witness relaying I  
11    suppose marketing type information.

12          THE WITNESS: I can't answer. I can't answer  
13    under that -- because it is legal advice.

14          JUDGE CHAPPELL: Okay.

15          MR. ORLANS: Let me just again, Your Honor,  
16    note my objection. I think this is a door that was  
17    opened by counsel on direct examination having raised  
18    this issue. I think we should be entitled to proceed  
19    through that door and at least find out. They were the  
20    ones that raised the question of the company not suing  
21    Andrx.

22          MR. NIELDS: Just for the record, Your Honor,  
23    the reason I asked Mr. Hoffman that question is that  
24    there was a witness that complaint counsel called that  
25    testified he thought Schering had sued Andrx and then

1 later said he wasn't sure, and I simply wanted to get  
2 the accurate answer to that question which had been put  
3 in issue by complaint counsel. That was the witness  
4 from Andrx who testified that way.

5 JUDGE CHAPPELL: Mr. Rosenthal?

6 MR. NIELDS: Yes, Your Honor.

7 JUDGE CHAPPELL: Okay, Mr. Orlans, your -- I  
8 think the request or the objection you're making is  
9 because the information was allowed on direct, you have  
10 the right to inquire?

11 MR. ORLANS: Correct, Your Honor.

12 JUDGE CHAPPELL: And because I overruled your  
13 objection as to hearsay?

14 MR. ORLANS: I'm sorry, Judge?

15 JUDGE CHAPPELL: Because I overruled your  
16 hearsay objection?

17 MR. ORLANS: Right.

18 JUDGE CHAPPELL: This might be a good time to  
19 talk a little more about the hearsay rule. If a  
20 statement is offered not for the truth of the matter  
21 asserted, then it's admissible if it's relevant. A  
22 statement that's offered not for the truth of the  
23 matter asserted may be relevant to show things like  
24 knowledge, state of mind, a verbal act, for example.  
25 The attorney that had the witness on the stand said he



1       wasn't offering it for the truth of the matter  
2       asserted. I have ruled that it's not hearsay.

3               Then we go to the Commission rules. You know,  
4       if it's material, relevant and reliable, it's in, and  
5       reliability gets us back to hearsay. Well, it's not  
6       offered for the truth of the matter, so it's not  
7       hearsay.

8               Does that help you?

9               MR. ORLANS: It really doesn't, Judge. I'm not  
10      questioning the basic testimony. The issue is more an  
11      issue of completeness and opening the door and using  
12      the privilege as a sword and shield. I don't have a  
13      problem with Your Honor's ruling on the basic  
14      testimony. In fact, I didn't object on the basic  
15      testimony.

16              JUDGE CHAPPELL: Well, tell me again what  
17      question and answer you heard that opened the door for  
18      your question that's pending at this time.

19              MR. ORLANS: I heard counsel ask the witness  
20      whether, in fact, Schering had sued Andrx, and he  
21      responded, having received a Paragraph IV  
22      certification, he responded that it hadn't, and I'm  
23      following up on that by inquiring as to why it hadn't.

24              JUDGE CHAPPELL: I disagree that the door was  
25      opened enough to get into attorney-client privilege.

1       So, your objection's sustained.

2               BY MR. ORLANS:

3               Q.   Were there any factors other than legal factors  
4       that you can identify for me that led Schering to  
5       decide not to sue Andrx?

6               A.   No.

7               Q.   Mr. Hoffman, regardless of what you told the  
8       magistrate about a payment for delay and your  
9       willingness to make such a payment, did ESI ever  
10      indicate that they had a problem with a payment for  
11      delay?

12              A.   To be fair, only in this sense:  There was a  
13      telephone call I was on in which there was an attorney  
14      for ESI on the telephone.  The subject was a discussion  
15      early on in this, before I think I'd ever been to the  
16      magistrate's chambers, of a co-promote, doing some sort  
17      of co-promote between the parties, and ESI was  
18      advocating that the co-promote was a bigger antitrust  
19      problem than the payment.  So, in that sense, yes, but  
20      that would be the only sense.

21              Q.   We will come back to the co-promote, but in  
22      terms of a pure payment for delay, they continued to  
23      want one, didn't they?

24              A.   I believe that's correct.

25              Q.   And you don't know from anything they ever said

1 to you what they thought about the purpose of the  
2 payment in the settlement agreement was, do you?

3 A. No.

4 Q. As long as you mentioned this co-promotion,  
5 let's talk about that a little bit. Isn't it true,  
6 sir, that even before ESI had suggested that you pay it  
7 \$100 million for delay, that Schering had, in fact,  
8 offered a co-promote deal to ESI?

9 A. I don't know whether it was before or after,  
10 but I know that in the discussions, there was  
11 discussion of a co-promote and that Schering/Key was  
12 the advocate of that.

13 Q. Let me direct your attention in your booklet,  
14 sir, to tab 12, which is Commission Exhibit CX 458. Do  
15 you see that letter, sir? That's a March '97 letter  
16 from Mr. Heller representing ESI to Mr. Herman  
17 representing Schering. Is that right?

18 A. Right.

19 Q. Okay. And in that letter, doesn't Mr. Heller  
20 indicate that he is concerned because of antitrust  
21 risks with the concept of co-promotion?

22 A. I don't know whether that's his thought or  
23 somebody else's thought, but clearly somebody on the  
24 ESI side had the thought.

25 Q. Okay, and he goes on to say, "However, we --"

1     that is, ESI "-- are agreeable to discussing an  
2     arrangement where Key would make an appropriate payment  
3     to ESI Lederle and ESI Lederle would receive a license  
4     to enter the market at some subsequent time (for  
5     example, in 2002) and forebear from entering the market  
6     until then." Right?

7           A. Yes.

8           Q. Okay. So, what happened in this letter was  
9     that ESI rejected on antitrust grounds your concept of  
10    the co-promote and instead asked to be paid for delay.  
11    Isn't that right?

12          A. It was not my concept of the co-promote.

13          Q. Schering's concept.

14          A. Schering's concept of the co-promote, but yes,  
15    that's what this letter says.

16          Q. So, let's put this in perspective, sir. You  
17    say that you told ESI that you wouldn't pay for delay  
18    because it would violate the antitrust laws, right?

19          A. Can I have that back, please?

20               (The record was read as follows:)

21               "QUESTION: So, let's put this in perspective,  
22    sir. You say that you told ESI that you wouldn't pay  
23    for delay because it would violate the antitrust laws,  
24    right?"

25               THE WITNESS: I remember having more

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1 discussions with Judge Reuter than with ESI on that  
2 subject.

3 BY MR. ORLANS:

4 Q. Okay.

5 A. And it was antitrust concerns. I didn't say it  
6 would violate the antitrust laws.

7 Q. Okay. And yet prior to that, Schering had made  
8 ESI an offer that ESI rejected because of antitrust  
9 concerns, correct?

10 A. That's what the letter says, yes.

11 Q. Um-hum. And the offer that Schering made to  
12 ESI wouldn't just have delayed ESI's entry; it would  
13 have actually kept ESI's product off the market  
14 completely. Isn't that correct?

15 A. I'm not sure.

16 Q. May I ask you to turn to the following tab,  
17 sir, it's tab 13, CX 459. This is a letter to  
18 Magistrate Judge Reuter from Anthony Herman  
19 representing Schering discussing three proposals, and  
20 the first of the three is the co-promotion venture. Do  
21 you see that?

22 A. Yes.

23 Q. Okay. And Mr. Herman explains, "Under that  
24 proposal, Key and ESI would jointly fund and manage a  
25 third-party workforce that would detail K-Dur 20, in

1 exchange for which ESI would cease its efforts to gain  
2 FDA approval of its accused generic version of K-Dur."

3 Do you see that?

4 A. Yes.

5 Q. Okay.

6 A. So, that --

7 Q. So --

8 A. Your prior question was correct, as stated in  
9 this letter. I hadn't seen that letter before.

10 Q. Okay. So, Schering, prior to ESI requesting a  
11 payment for delay, Schering had gone to ESI with an  
12 offer that would have involved a complete abandonment  
13 of the ESI product. Is that right?

14 A. That's apparently correct.

15 Q. One further point, sir. When ESI -- and let me  
16 take you back to the prior tab, Exhibit CX 458, that's  
17 tab 12.

18 A. All right.

19 Q. When ESI came back with its counterproposal of  
20 a payment for delay, the entry date that they selected  
21 was sometime in 2002. Isn't that correct?

22 A. That's their example.

23 Q. And in fact, if you turn to tab 13, CX 459, Mr.  
24 Herman's letter to Magistrate Reuter talking about  
25 ESI's proposal, it says, "Second, ESI proposed a

1 settlement under which it would not market its generic  
2 potassium chloride product until 2002."

3 Do you see that?

4 A. Yes.

5 Q. So, again, the date that ESI was proposing at  
6 this point was 2002, correct?

7 A. That's not what ESI says; that's what Mr.  
8 Herman says, but yes.

9 Q. Isn't that what Mr. Heller says in the previous  
10 letter?

11 A. That was his example, but I don't want to  
12 quibble with that.

13 Q. The fact is, sir, that the actual entry date  
14 was from one to two years later than 2002. Isn't that  
15 correct? The entry date of the settlement agreement.

16 A. Yes.

17 MR. ORLANS: I have no further questions, Your  
18 Honor.

19 JUDGE CHAPPELL: Redirect?

20 MR. NIELDS: I have one, Your Honor.

21 REDIRECT EXAMINATION

22 BY MR. NIELDS:

23 Q. Mr. Hoffman, did you attend the mediation  
24 session with Judge Reuter that was attended by Mr.  
25 Rule?

1           A. I did not.

2           MR. NIELDS: Nothing further, Your Honor.

3           JUDGE CHAPPELL: Recross?

4           MR. ORLANS: Nothing, Your Honor.

5           JUDGE CHAPPELL: Okay, let's take our  
6 midmorning break. We will stand in recess until 11:25.

7           (A brief recess was taken.)

8           JUDGE CHAPPELL: We're on the record.

9           Ms. Bokat?

10          MS. BOKAT: Thank you, Your Honor. On the  
11 point about AHP's motion for in camera status?

12          JUDGE CHAPPELL: Yes.

13          MS. BOKAT: I checked with my colleagues on the  
14 other side of Pennsylvania Avenue, and it's our current  
15 intention to file something by the end of the day  
16 today.

17          JUDGE CHAPPELL: To oppose it?

18          MS. BOKAT: If I understood, we wouldn't be  
19 opposing the in camera status when it's before Your  
20 Honor or before the Commission, but we oppose an  
21 indefinite stay -- or I'm sorry, an indefinite in  
22 camera treatment once appeals have been exhausted,  
23 which seems to be what AHP is requesting. So, I guess  
24 it would be in the nature of a partial opposition.

25          JUDGE CHAPPELL: Could I get someone from your



1 office to give me that opposition orally at some time  
2 today? I need to get a ruling out on that motion.

3 MS. BOKAT: We will try to do that.

4 JUDGE CHAPPELL: Thank you.

5 MR. CURRAN: Your Honor, on the same subject, I  
6 took advantage of the break a moment ago to read AHP's  
7 motion, and I can confirm we will not be filing an  
8 opposition to that motion.

9 JUDGE CHAPPELL: Thank you.

10 Ms. Bokat, you have the option of having  
11 someone make your opposition orally or in writing by  
12 midafternoon. If it's in writing, I need it by  
13 midafternoon. Thank you.

14 MS. BOKAT: Yes, Your Honor.

15 JUDGE CHAPPELL: I apologize for the shortness  
16 of time, but I have a time problem here as well.

17 Mr. Nields, call your next witness, or Ms.  
18 Shores.

19 MS. SHORES: Thank you, Your Honor. Schering  
20 calls Professor Robert Mnookin.

21 JUDGE CHAPPELL: Raise your right hand, please.  
22 Whereupon--

23 ROBERT H. MNOOKIN  
24 a witness, called for examination, having been first  
25 duly sworn, was examined and testified as follows:

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1 JUDGE CHAPPELL: Thank you, have a seat.  
2 State your full name for the record, please.

3 THE WITNESS: Robert Harris Mnookin.

4 JUDGE CHAPPELL: Thank you.

5 DIRECT EXAMINATION

6 BY MS. SHORES:

7 Q. Good morning, Professor Mnookin. Where do you  
8 live, sir?

9 A. I live in Cambridge, Massachusetts.

10 Q. And what is your profession?

11 A. I'm a law professor at Harvard Law School.

12 Q. Are you a lawyer by training?

13 A. I am.

14 Q. Where did you go to law school?

15 A. I went to law school at Harvard Law School.

16 Q. And you said you were a professor at Harvard?

17 A. Yes.

18 Q. Do you hold any other positions at Harvard Law  
19 School?

20 A. Well, at Harvard, I have a chair, I'm called  
21 the Williston Professor of Law, and I am chairman of  
22 the Program on Negotiation, and I also direct the  
23 Harvard Negotiation Research Project.

24 Q. What is the Program on Negotiation, sir?

25 A. The Program on Negotiation is an

1 inter-university consortium involving faculty not only  
2 from Harvard, various schools and departments, but also  
3 MIT and the Fletcher School of Diplomacy, and it's  
4 concerned with promoting and doing research relating to  
5 negotiation and dispute resolution.

6 Q. And what is the Harvard Negotiation Project?

7 A. The Harvard Negotiation Research Project is a  
8 research project that I direct that has been especially  
9 concerned with the efficient resolution of legal  
10 disputes and the role of lawyers in negotiation.

11 Q. What courses do you regularly teach at Harvard  
12 Law School?

13 A. I regularly teach courses in negotiation and in  
14 dispute resolution. This includes mediation/  
15 arbitration. And I've also taught a course in  
16 something called dispute system design.

17 Q. Okay. Do you teach courses outside of Harvard  
18 for people who aren't law students?

19 A. Yes.

20 Q. And tell us about those.

21 A. At Harvard Law School, I also participate  
22 regularly in the Law School's Program for Instruction  
23 for Lawyers. Every June, courses are offered for  
24 practicing lawyers, actually from around the world, and  
25 as part of the -- it's called PIL, I teach -- have

1       taught courses in both negotiation and in mediation.

2           Q.   What does PIL stand for?

3           A.   Program for Instruction for Lawyers.

4           Q.   Is that in the nature of a continuing legal  
5 education program?

6           A.   Exactly.

7           Q.   And do you teach any other courses outside of  
8 Harvard?

9           A.   I do.  I have regularly taught for the last  
10 half dozen years for the World Intellectual Property  
11 Organization in Geneva on the mediation of intellectual  
12 property disputes.

13          Q.   And what is the World Intellectual Property  
14 Organization?

15          A.   It's a UN affiliate that's really responsible  
16 for promoting intellectual property regimes around the  
17 world.

18          Q.   And what is the nature of the workshops that  
19 you teach in connection with the World Intellectual  
20 Property Organization?

21          A.   These workshops involve lawyers -- some lawyers  
22 from the United States but primarily lawyers from  
23 abroad.  My impression is probably I've had students as  
24 part of that program from some 30 or 40 countries from  
25 around the world.  Most are intellectual property

1 specialists, and the course for WIPO focuses on  
2 mediation and the value of mediation and the efficient  
3 resolution of intellectual property disputes.

4 Q. How long have you been a professor at Harvard  
5 Law School, sir?

6 A. I have been at Harvard Law School since 1993.

7 Q. And how long have you been the chair of the  
8 Harvard Program on Negotiation?

9 A. Since I arrived.

10 Q. Where were you employed before Harvard?

11 A. I was a professor at Stanford Law School from  
12 1980 until I went to Harvard.

13 Q. As I understand it, you actually taught at  
14 least one course to Ms. Creighton, who will be asking  
15 the questions on behalf of complaint counsel. Is that  
16 correct?

17 A. She was one of our star students at Stanford  
18 Law School.

19 Q. Did you hold any other positions at Stanford?

20 JUDGE CHAPPELL: That would be the dream cross  
21 examination, Counselor.

22 THE WITNESS: I didn't hear an objection,  
23 but --

24 MS. CREIGHTON: It's certainly nice of  
25 Professor Mnookin to say.

1 JUDGE CHAPPELL: I'm sorry, Ms. Shores, you may  
2 proceed.

3 MS. SHORES: Thank you, Your Honor.

4 BY MS. SHORES:

5 Q. Did you hold any other positions at Stanford?

6 A. Yes, at Stanford I chaired the Stanford Center  
7 on Conflict and Negotiation.

8 Q. And what is that?

9 A. The Stanford Center on Conflict and Negotiation  
10 is an interdisciplinary research group that I founded  
11 around 1986. It involved and involves faculty from the  
12 economics department, the business school and the  
13 psychology department.

14 Q. And I take it that also is -- involves study of  
15 dispute resolution?

16 A. Exactly.

17 Q. And where were you employed before you went to  
18 Stanford, sir?

19 A. I was a professor at the University of  
20 California Berkeley, Boalt Hall, from 1972 to 1980.

21 Q. Have you written any books, sir?

22 A. I have.

23 Q. And what is the title of your most recent book?

24 A. The most recent -- my most recent book is  
25 entitled Beyond Winning: Negotiating to Create Value

1 in Deals and Disputes. It was published by Harvard  
2 University Press I think a year and a half ago.

3 Q. Did you have any co-authors?

4 A. I did. Two of my former students, Drew  
5 Tullello and Scott Peppet, were my co-authors.

6 Q. And what is that book about, just briefly?

7 A. That book really focuses on the special  
8 challenges and opportunities for lawyers as  
9 negotiators, and its thesis is that lawyers can be  
10 problem-solvers and should take problem-solving  
11 approaches towards negotiation.

12 Q. And what do you mean by a "problem-solving  
13 approach"?

14 A. An approach that seeks in all circumstances not  
15 simply to worry about the distributive aspects of  
16 bargaining, how a pie is divided, but also to focus  
17 attention on how the pie can be expanded, how value can  
18 be created.

19 Q. Can you explain what you mean, sir, by  
20 "distributive aspects of bargaining"?

21 A. Yes. A key part of any negotiation is --  
22 negotiations characteristically involve a distributive  
23 issue or many distributive issues of who gets how much,  
24 but also, and one of the themes of this book, is that  
25 through negotiation, parties are often able to create

1 efficiencies and expand the pie.

2 Q. And have you written any other books on the  
3 subject of negotiation and dispute resolution?

4 A. Yes. I edited a book entitled Negotiating on  
5 Behalf of Others with Professor Lawrence Suskind, who  
6 is a professor at MIT. I also wrote a book called  
7 Barriers to Conflict Resolution with my colleagues at  
8 the Stanford Center on Conflict and Negotiation. And I  
9 wrote a book entitled Dividing the Child: Social and  
10 Legal Realities of Custody, with a psychologist,  
11 Eleanor Maccoby.

12 Q. Have any of your books been awarded any prizes?

13 A. They have.

14 Q. And can you tell us about that?

15 A. Beyond Winning, the most recent book, won the  
16 prize for the best book relating to dispute resolution,  
17 and that was awarded by the Center for Public  
18 Resources, Institute for Dispute Resolution, a  
19 nonprofit organization of lawyers and companies  
20 interested in promoting dispute resolution.

21 Dividing the Child won a prize for being the  
22 best book relating to families in the year it was  
23 written by the American Psychological Association. And  
24 Barriers to Conflict Resolution also won the prize for  
25 the best book relating to dispute resolution by the CPR



1 Institute.

2 Q. Are you a member of any honorary societies or  
3 organizations?

4 A. I am.

5 Q. And what are those, sir?

6 A. I've been elected to the American Academy of  
7 Arts and Sciences.

8 Q. What is that?

9 A. It's an honorary association, I guess it's a  
10 couple hundred years old, that primarily includes  
11 academics that presumably have made contributions.

12 Q. And how long have you been a member of that  
13 society, sir?

14 A. I believe I was elected in 1995.

15 Q. Have you had any hands-on experience as a  
16 mediator or an arbitrator?

17 A. Yes, I have had a great deal of experience as a  
18 neutral in commercial disputes. I have mediated I  
19 suspect more than 20 large-scale commercial disputes.  
20 I was also a neutral in the dispute between IBM and  
21 Fujitsu, which was a very large-scale intellectual  
22 property dispute.

23 Q. Have you ever served as a neutral or a mediator  
24 on behalf of the Government?

25 A. I have not served as a neutral on behalf of the

1 Government. I have served as a consulting expert for  
2 the Government.

3 Q. And tell us about that.

4 A. I was retained by the Department of Justice,  
5 Civil Division, to advise them with respect to  
6 facilitating the resolution of cases that were called  
7 the Windstar cases. They -- in the aftermath of the  
8 savings and loan crisis, the Federal Government was  
9 sued for a great deal of money arising out of various  
10 decisions that had been made relating to the S&Ls.

11 Q. Professor Mnookin, in your teaching and writing  
12 on the subject of dispute resolution, have you focused  
13 particularly on the area of the settlement of lawsuits?

14 A. I have.

15 MS. SHORES: Your Honor, at this time we would  
16 offer Professor Mnookin as an expert in the area of  
17 negotiations and dispute resolution.

18 MS. CREIGHTON: No objection, Your Honor.

19 JUDGE CHAPPELL: I'll accept him.

20 MS. SHORES: Thank you.

21 BY MS. SHORES:

22 Q. Professor Mnookin, have you been retained to  
23 offer an expert opinion in this matter?

24 A. I have.

25 Q. And by whom were you retained, sir?

1           A. I was retained by Schering-Plough.

2           Q. And what opinion or opinions have you been  
3 asked to render?

4           A. I have been asked to render opinions really on  
5 two subjects. One is the relationship of settlement to  
6 public policy and whether settlement serves public  
7 interest, the settlement of legal disputes, and  
8 secondly, whether in terms of dispute resolution it's a  
9 good thing for parties to search for value-creating  
10 trades outside the subject matter of the dispute  
11 itself.

12          Q. Let's turn to the first opinion that you just  
13 mentioned, sir. What are some of the societal benefits  
14 of settlement, just briefly?

15          A. By settling cases, the parties themselves can,  
16 of course, conserve resources and avoid transaction  
17 costs. These transaction costs can include not only  
18 the legal fees, but also the time and the distraction  
19 in terms of the parties, people that work for the  
20 companies. Through settlement, uncertainty can be  
21 mitigated, and the risks of litigation can be avoided,  
22 and these can -- this -- thus, settlement can both  
23 create economic efficiencies.

24                 Settlement also, of course, can serve the  
25 public interest very much, because it can conserve

1     judicial and administrative resources. And indeed,  
2     there's also a public interest in dispute settlement  
3     processes that have lower transaction costs rather than  
4     higher transaction costs.

5           Q. Just focusing on what the parties save by  
6     settling disputes, if parties can always save  
7     transaction costs, legal fees, et cetera, by settling,  
8     why don't parties always settle?

9           A. I think there are really two central reasons.  
10    First, it's easy for cases to settle or easier for  
11    cases to settle when parties have convergent  
12    expectations about what the litigation opportunities  
13    and risks are. Often parties, though, have different  
14    information, and as a consequence, they may have  
15    different assessments of what those opportunities and  
16    risks are.

17           Parties, to use a phrase that I coined in 1997,  
18    bargain in the shadow of the law; that is, when legal  
19    disputes are being settled, one of the important  
20    things -- not the only thing, but one of the important  
21    things parties consider is what the opportunities and  
22    costs are of proceeding in the formal legal system.

23           JUDGE CHAPPELL: Ms. Shores, pardon me, I hate  
24    to interrupt your course of questions here, but I need  
25    to go back to something we discussed earlier.

1           Ms. Bokat, on page 4 of AHP's motion for in  
2 camera treatment, they represent that complaint counsel  
3 agreed not to oppose this motion. Would you have  
4 someone check on that and let me know if that changes  
5 your position?

6           MS. BOKAT: Yes. Would you like me to step out  
7 and do that now while Ms. Shores continues?

8           JUDGE CHAPPELL: Yes, please. Yes, if you  
9 would like to, thank you.

10          You may proceed.

11          MS. SHORES: Thank you, Your Honor.

12          BY MS. SHORES:

13          Q. I think you were talking, Professor, about  
14 bargaining in the shadow of the law.

15          A. Right, and you asked, I believe, a question  
16 about why given the fact that parties can save  
17 transaction costs, all cases don't settle. One reason  
18 is because there may be nonconvergent expectations  
19 about the opportunities and risks.

20          A second reason is, the litigation process  
21 involves a lot of strategic patter and posturing.  
22 Often what parties are trying to do is signal to the  
23 other party their willingness to fight to the end, that  
24 they have a greater capacity to bear the costs of the  
25 dispute, and regrettably, often, a consequence is the

1     equivalent of trench warfare in which cases do settle,  
2     but they will often settle extremely late, after there  
3     have been lots of costs.

4           Q.   What can be done to encourage parties who have  
5     come to an impasse in settlement negotiations to  
6     nonetheless continue on the road to settlement?

7           A.   Well, in my teaching, one of the core themes  
8     that I develop is that it is important as part of the  
9     process for parties to search for opportunities  
10    unrelated to the dispute itself, where they can  
11    engineer new transactions, make deals of various sorts.

12          Q.   And why is that important?

13          A.   Well, it's important because to the extent  
14    there's a gap in the parties' expectations about what's  
15    likely to happen in court, if parties can discover that  
16    through trades of various sorts, because they have  
17    access to different resources, that they can create  
18    value through an unrelated transaction, that value will  
19    often make it possible for them each to end up  
20    concluding that on balance, they're better off settling  
21    where the settlement includes this I'll call it side  
22    transaction than continuing the litigation process.

23          Q.   And is this side transaction what you referred  
24    to earlier, sir, as a value-creating trade?

25          A.   Yes.   The sources of value-creating trades are

1     characteristically, although not exclusively,  
2     differences in relative valuations by the party. The  
3     example I like to give is that you're looking for  
4     opportunities for a carnivore to trade broccoli to a  
5     vegetarian who has some lamb chops. What I'm  
6     constantly emphasizing to my students and in mediation  
7     itself is to look for those things that are relatively  
8     cheap for one side to give up that may be valued by the  
9     other side.

10        Q. So, in the example that you just gave, I take  
11     it the carnivore would value the broccoli less than the  
12     vegetarian. Is that correct?

13        A. Their relative valuations of the two differ  
14     between the two parties, that's right.

15        Q. So, generally speaking, one party to a dispute  
16     might have an asset that the other party would value  
17     more than the party who owns it. Is that right?

18        A. Absolutely.

19        Q. So, Professor Mnookin, as I understand it,  
20     there's a connection, then, between the value-creating  
21     trade and the dispute. Is that right?

22        A. Well, there's a connection in that, you know,  
23     but for the dispute, the parties may never have had the  
24     opportunity to discover the possibility for this trade,  
25     but what I'd like to emphasize is that often the

1     subject matter of these ancillary trades has nothing  
2     whatsoever to do with what's in dispute in the  
3     courtroom.

4           Q.   Is this search for value-creating trades, for  
5     transactions that have nothing to do with the dispute,  
6     is that something that you emphasize in your teaching?

7           A.   Absolutely.  It's also a basic theme of my  
8     book, Beyond Winning.

9           Q.   And do other leaders in the dispute resolution  
10    field agree on this point, sir?

11          A.   They do.

12          Q.   Can you give us the names of some who do?

13          A.   Professor Steve Goldberg at Northwestern  
14    University wrote a book review of Beyond Winning in  
15    which he emphasized that he uses this technique all the  
16    time as a mediator.  Professor Frank Sander at Harvard  
17    Law School.  Professor Roger Fisher.  In fact, I think  
18    that the idea of looking for these kinds of trades is  
19    something that is a basic theme of dispute resolution  
20    literature.

21          Q.   And Professor Fisher, who you mentioned, did he  
22    write a book on this subject?

23          A.   Not on legal disputes, but he wrote a book  
24    called Getting to Yes, and I only wish Beyond Winning  
25    had sold 10 percent as many copies.



1 Q. Here's hoping you success.

2 Do you teach your students to look for such  
3 trades as part of your teaching and dispute resolution?

4 A. Absolutely.

5 Q. And do you, sir, utilize this technique when  
6 you are serving as a mediator or a neutral?

7 A. All the time.

8 Q. Have you read the complaint filed in this case,  
9 Professor Mnookin?

10 A. I have.

11 Q. And are you aware that complaint counsel is  
12 challenging the propriety of two settlements that  
13 Schering-Plough entered into?

14 A. I am.

15 Q. And are you aware that in connection with these  
16 settlements, Schering entered into licensing agreements  
17 with the other parties?

18 A. I am.

19 Q. And are you aware, sir, that it is Schering's  
20 position that those licensing transactions were done  
21 for fair value?

22 A. I am.

23 Q. Have you been asked to give an opinion as to  
24 whether those transactions were done for fair value?

25 A. I have not.

1           Q. And what would you or anyone have to do to form  
2 an opinion on that issue?

3           A. To form an opinion about whether there was fair  
4 value, whether they were arm's length negotiations, one  
5 would have to do a detailed factual inquiry.

6           Q. And you have not been asked to do that, have  
7 you?

8           A. I have not done -- I have not been asked to do  
9 it, nor have I done it.

10           MS. SHORES: I have no further questions, Your  
11 Honor.

12           JUDGE CHAPPELL: Cross exam?

13           MS. CREIGHTON: Yes, Your Honor.

14           JUDGE CHAPPELL: You may proceed.

15           MS. CREIGHTON: May I have one minute, Your  
16 Honor?

17           JUDGE CHAPPELL: Yes, you may.

18                       CROSS EXAMINATION

19           BY MS. CREIGHTON:

20           Q. Good morning, Professor. It's nice to see you  
21 again.

22           A. Nice to see you.

23           Q. And Professor Mnookin, you testified about what  
24 you have called value-creating trades. Do you recall  
25 that?

1           Now, it's fair to say, isn't it, that some of  
2   what you've called value-creating trades are good for  
3   society and some are not. Is that fair?

4           A. I'm not sure I understand the question. I  
5   think that to the extent that a value-creating trade  
6   promotes economic efficiency, I think that's a good  
7   thing.

8           Q. Well, are you familiar with a negotiation  
9   simulation called oil pricing?

10          A. Yes.

11          Q. Is that something that you've taught in your  
12   classes?

13          A. Yes.

14          Q. In that simulation, if the two companies choose  
15   higher prices rather than lower prices, that's better  
16   for the oil companies, whereas if they choose to  
17   compete on price in order to maximize market share,  
18   that ends up being bad for both, doesn't it?

19          A. In terms of the companies themselves, that's  
20   correct.

21          Q. That's correct.

22           JUDGE CHAPPELL: Excuse me, are you saying  
23   oil -- like crude oil?

24           MS. CREIGHTON: Yes, I think it's a simulation  
25   of two oil companies --

1 JUDGE CHAPPELL: Thank you.

2 MS. CREIGHTON: -- negotiating on price.

3 BY MS. CREIGHTON:

4 Q. So, if the two companies cooperated in that  
5 simulation and chose higher prices, that would be what  
6 you would call a value-creating trade so far as those  
7 parties are concerned. Is that right?

8 A. Well, I think that if two companies cooperate  
9 to create a monopoly or exploit a monopoly, it might be  
10 profitable for the companies, but it wouldn't be  
11 socially beneficial, I suspect.

12 Q. But if you were just looking at the parties  
13 themselves, you would call it a value-creating trade,  
14 wouldn't you?

15 A. That's correct.

16 Q. So, sometimes value-creating trades can come at  
17 the expense of third parties who aren't at the table.  
18 Isn't that right?

19 A. That's correct.

20 Q. So, for example, in the example I just gave  
21 you, that value-creating trade, while good for the oil  
22 companies, would be coming from the pockets of  
23 consumers. Is that correct?

24 A. That's correct.

25 Q. Now, consider the following hypothetical:

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1     Suppose a branded pharmaceutical paid a generic  
2     pharmaceutical not to bring its product to market for  
3     five years, and the branded pharmaceutical is able to  
4     charge monopoly prices as a result without the  
5     agreement that the generic would enter and they would  
6     collect less. Do you understand that hypothetical on  
7     the facts that I've given you?

8           A. On the facts that you've given me, would the  
9     generic have the legal right to enter?

10          Q. Without the agreement, the generic would have  
11     the legal right to enter. So, that's my hypothetical.

12          A. Okay. So, your hypothetical is one where  
13     the -- there's no patent on the part of the first  
14     company that it could exclude entry.

15          Q. Right, without regard to whether there was a  
16     patent or not, they're able to enter tomorrow but for  
17     the agreement is my hypothetical, okay?

18                 So, now, under those circumstances, the parties  
19     agree that the generic will stay out of the market and  
20     will get paid, and they will share the monopoly prices.  
21     That would be an example of a value-creating trade as  
22     far as the parties were concerned, wouldn't it?

23          A. Well, it would be -- it would be an example of  
24     a deal to divide a market where it would benefit the  
25     parties but it would not benefit society, that's

1 correct.

2 Q. Okay. And I think I heard you say in your  
3 direct testimony that you have offered no opinion in  
4 this case as to whether Schering's agreements with ESI  
5 and Upsher were good for society. Is that correct?

6 A. I -- on the ultimate merits of this case, I  
7 have neither studied nor offered any opinion about  
8 that, that's correct.

9 Q. Okay.

10 A. What I, in fact, have suggested instead is the  
11 need for detailed factual inquiry.

12 Q. Okay. Now, you testified earlier today,  
13 Professor Mnookin, about the advantages of settlement.  
14 Is it your testimony, Professor Mnookin, that there  
15 should be special antitrust rules that should apply to  
16 agreements between competitors if they take place in  
17 the context of settlement?

18 A. I offered no opinion whatsoever on antitrust  
19 rules, and I have not been asked to be an antitrust  
20 expert.

21 Q. Okay. So, when you're saying that there should  
22 be a detailed factual inquiry, it's not your testimony  
23 that there should be a different antitrust rule applied  
24 to agreements between competitors because they take  
25 place in the context of settlement. Is that correct?

1           A. It's my expert opinion that in formulating  
2           legal rules in any area, one should take into account  
3           the social benefits of settlement.

4           Q. Are you familiar with a kind of patent case  
5           called a patent interference case, Professor Mnookin?

6           A. Patent?

7           Q. A patent interference lawsuit?

8           A. I know the term, but I'm not -- I'm not a  
9           patent expert.

10          Q. Okay, but have you ever been involved as a  
11          neutral in resolving a patent interference lawsuit?

12          A. I have not. I have done -- I have been a  
13          neutral in copyright lawsuits but not patent lawsuits.

14          Q. And so I take it you are also not familiar with  
15          what antitrust experience has been with respect to  
16          settlements that have taken place in the context of  
17          patent interference lawsuits?

18          A. I am not.

19          Q. Let me have you assume hypothetically the  
20          following facts: If the -- a patent interference is  
21          when each of two parties claim that they were the first  
22          to invent an invention. Does that refresh your  
23          recollection as to what that term refers to?

24                 So, assume hypothetically that in a patent  
25          interference, if you litigate to the finish, one

1 outcome is that one or the other of the parties will  
2 end up with the patent and the other will not, all  
3 right?

4 A. Or possibly neither could end up with a patent,  
5 I suppose.

6 Q. Right, exactly, and, in fact -- so, assume  
7 hypothetically, as I will represent to you, that  
8 actually what sometimes can happen in a patent  
9 interference, if you actually litigate to the finish, a  
10 court or a patent office might decide that neither  
11 party should enter, have the patent, and so one outcome  
12 of litigating to the finish in a patent interference  
13 case, in my hypothetical, would be that one party ends  
14 up with a monopoly, but another alternative is that  
15 they both end up having to compete and neither has a  
16 monopoly.

17 Now, on those hypothetical facts, if the  
18 parties agreed to reach a settlement and divide up the  
19 profits that they're able to collect as a result of the  
20 patent, that would be a value-creating trade so far as  
21 those parties are concerned in my hypothetical, would  
22 it not?

23 A. The parties would benefit.

24 Q. But that might not necessarily be a good  
25 settlement for society. Isn't that correct?



1           A. I take it -- you at your word that there would  
2       need to be an antitrust analysis of some sort.

3           Q. Okay. And if there were legal authority that  
4       said that settlements under those circumstances where  
5       there is a substantial question about the validity of  
6       the patent, if not bad per se then at least  
7       presumptively bad, would that be at odds with the rule  
8       that you've proposed here for this case?

9           A. I'm not familiar with those rules, and I think  
10      that in my opinion, what would be important is that in  
11      formulating and deciding what kind of rules to have,  
12      one should take into account the social benefits of  
13      trying to promote settlement.

14          Q. But when you were saying taking a look at the  
15      factual context of the merits of the lawsuit, perhaps I  
16      misunderstood your testimony, that would not be in your  
17      view consistent or inconsistent with the rule that said  
18      that settlements in the hypothetical patent  
19      interference that I just gave you, that that would be a  
20      rule that you would necessarily disagree with. Is that  
21      correct?

22          A. You know, I'm not familiar with the rule, and  
23      I'm not an expert in that domain, but what I think  
24      one -- what one would want to do is study carefully  
25      what the underlying opportunities and risks of the

1 litigation were and have experience at that before  
2 formulating a rule.

3 Q. Now, Professor Mnookin, have you ever been  
4 involved personally as a neutral in a Hatch-Waxman  
5 patent case?

6 A. Never.

7 Q. So, you have no actual experience with any of  
8 the constraints or dynamics that might be at play in  
9 such cases or that are unique to such cases. Is that  
10 correct?

11 A. No, I am not a Hatch-Waxman expert.

12 Q. Okay. Have you, however, been involved in the  
13 resolution of intellectual property disputes between  
14 competitors? I think you identified at least one.

15 A. I have, yes, I have.

16 Q. Was that case the only intellectual property  
17 dispute in which you've acted as a neutral?

18 A. It was the most conspicuous one. I don't have  
19 a list in front of me of all the other cases I've  
20 mediated, and I don't want to say that I haven't been  
21 involved in other intellectual property disputes,  
22 because of my -- I have some intuitive sense that I  
23 have, but that's certainly the most conspicuous one  
24 that took the most time.

25 Q. Are you widely read with respect to the terms

1 of negotiation and settlement that go on in  
2 intellectual property disputes between competitors?

3 A. I don't view myself as an intellectual property  
4 expert, but I certainly am aware that, in fact, in  
5 terms of shaping intellectual property resolutions,  
6 when it involves competitors, one would want to have  
7 antitrust counsel.

8 Q. What I was trying to figure out, Professor  
9 Mnookin, is whether you consider yourself familiar with  
10 the terms typically reached in the settlement of  
11 intellectual property disputes between competitors.

12 A. I have some knowledge of that, yes, from my  
13 reading and discussions, but I -- as I say, I don't  
14 view myself as an intellectual property expert.

15 Q. In the cases with which you're familiar, are  
16 you aware of a single case, other than this one, in  
17 which the patent holder paid the accused infringer to  
18 settle?

19 A. Well, I'm aware that in many intellectual  
20 property cases, there are cross-claims where each is  
21 suing the other and where the settlement involves  
22 payments. Now, who's the claimant and who's not the  
23 claimant in those circumstances is hard to say.

24 Q. But what about in cases where there's only  
25 claims going from one party to the other, are you aware

1 of any cases, of any of the ones with which you're  
2 familiar, in which the plaintiff paid the accused  
3 infringer in order to settle the case?

4 A. I'm not aware of that, but in -- my strong  
5 hunch is that there are cases where -- that are settled  
6 in which there are licenses running the other way, in  
7 which there might well be payments.

8 Q. But simply --

9 A. Indeed -- indeed, in the IBM-Fujitsu case  
10 itself, because the settlement created the possibility  
11 of reciprocal rights to use each other's intellectual  
12 property rights in a secure facility regime, it was a  
13 very complicated settlement, that was a case where IBM  
14 had the option during a ten-year period to use under  
15 very limited circumstances certain interface  
16 information from Fujitsu, and had it done so, it would  
17 have had to pay for that right.

18 So, that was a case where the dispute, in fact,  
19 involved IBM claims of violations by Fujitsu, but the  
20 settlement created the possibility of what you call a  
21 cross-payment. In fact, IBM never chose to use any of  
22 Fujitsu's property, and no payment was made. So, I  
23 can't use that as an example, but it is an example of a  
24 settlement where there was distinctly that possibility.

25 Q. Professor Mnookin, I think you were here

1 earlier this morning when counsel for Schering  
2 testified. Is that correct?

3 A. I was.

4 Q. And I think you heard him testify that in the  
5 ESI case, Schering paid ESI \$5 million in cash for  
6 their attorneys' fees. Do you recall that?

7 A. I did hear that.

8 Q. And are you aware that the only claims in that  
9 case ran from Schering against ESI? ESI didn't have  
10 any claims against Schering.

11 In your experience, are you familiar with any  
12 circumstances in which the plaintiff pays the defendant  
13 their attorneys' fees unless the plaintiff has been  
14 found not to have a meritorious case?

15 A. In my experience, I've heard frequently about  
16 cases -- not in patent cases -- but other cases where a  
17 defendant pays the plaintiff's legal fees but really  
18 pays practically nothing else, and it was the  
19 defendant's perspective that the claim was rather  
20 frivolous, but they wanted to get rid of the case, and  
21 the only way to get rid of the case was in essence to  
22 pay off the lawyers on the other side.

23 Q. I agree with you that that's pretty common, but  
24 what about exactly the opposite circumstance where the  
25 plaintiff is paying off the defendant to drop its

1 lawsuit?

2 A. I can't recall a specific instance of that, but  
3 I -- because it is so common for one party to be paying  
4 the other party's amounts for legal fees, I have a  
5 sense that if we looked we could probably find some. I  
6 certainly do not know of any off the top of my head.

7 Q. But usually it's some kind of indicator about  
8 the relative merits of the lawsuit, isn't it?

9 A. I don't think that's right. I think that, in  
10 fact, one of the problems in legal negotiations is that  
11 the interests of the lawyers may not be identical to  
12 the interests of the clients, and what can sometimes be  
13 a barrier to the resolution of a conflict is in essence  
14 satisfying the lawyers.

15 Q. So, you're not surprised that a plaintiff would  
16 pay a defendant the defendant's attorneys' fees in a  
17 case where the plaintiff had the better case in order  
18 to drop the claims in the lawsuit?

19 A. I think that what one would want to know is  
20 what would be the costs of protracted litigation in  
21 terms of transaction costs for the plaintiff that  
22 presumably would be saved, but no, I'm not -- I'm  
23 not -- that doesn't strike me as surprising, as I say,  
24 because often as part of settlements one side will pay  
25 the other side's legal fees.

1           Q. Professor Mnookin, when you act as a neutral in  
2 a case, is it typically the case that each side is  
3 trying to persuade you of the strength of their case?

4           A. I always emphasize when I act as a neutral that  
5 I'm not the one to be persuaded. It's the other side  
6 that needs to be persuaded, because when you're a  
7 mediator and not a judge, you're not going to decide  
8 the case.

9           Q. And in your experience, when the parties make  
10 statements to one another about their respective  
11 positions in the case, is it your experience that the  
12 statements they make are always true, or are they  
13 sometimes strategic?

14          A. I think it's common for parties -- for counsel  
15 and parties to appear to be more confident about the  
16 probability of their success in the negotiation process  
17 than perhaps they are. I -- as a mediator, what I'm  
18 always interested in is objectively how -- what are the  
19 factors that create uncertainty here, how would one go  
20 about assessing the litigation opportunities and risks.  
21 And I don't assume -- I guess this is responsive to  
22 your question -- I don't assume that parties are going  
23 to simply tell me that.

24          Q. And isn't it the case, I think maybe in Getting  
25 to Yes, perhaps in your own works, that one of the

1 things parties can do in their strategic behavior with  
2 each other, to invoke some sort of objective rule  
3 beyond the negotiation session to say I can't do this  
4 because of tax consequences or some other kind of  
5 external rule that helps them in their strategic  
6 bargaining position?

7 A. I think what you're referring to is not exactly  
8 that. In Getting to Yes, there's an argument made for  
9 what's called principal negotiations, and that is, to  
10 translate it, it's you should always give a reason for  
11 a number, and you try to invoke some norm to explain a  
12 number.

13 Q. Well, apart from Getting to Yes, is it your  
14 experience that sometimes parties use the invocation of  
15 legal and other rules as a means of facilitating their  
16 position within the settlement discussion?

17 A. In negotiations, parties make a variety of  
18 claims about why they might be constrained in terms of  
19 the settlement process.

20 Q. So, things like tax consequences or antitrust  
21 rules would be things that you might expect to see  
22 invoked in the context of strategic bargaining. Isn't  
23 that correct?

24 A. They can be invoked. I think that to the  
25 extent what one is invoking is a legal rule like that,



1 the conspicuous feature of a legal rule is that all  
2 sides have access to information about those rules, and  
3 you can make an objective inquiry.

4 What I think more often happens is people make  
5 claims about why, for internal organizational purposes  
6 or for some reason relating to the -- what's going on  
7 behind the table on their own side that can't be  
8 verified by the other side, that's the more common way  
9 people play that game if they're playing that game, but  
10 you see, when you invoke a legal rule, it's perfectly  
11 possible to really inquire, to say, well, you can make  
12 the claim, but the claim isn't worth much if, in fact,  
13 they can explore the underlying circumstances and what  
14 the legal -- the law is, that it's not much of a  
15 problem.

16 Q. Professor Mnookin, in forming your opinion in  
17 this case, at the time you filed your report, you had  
18 done no factual analysis of any kind. Is that correct?

19 A. I was not asked to do any factual analysis, and  
20 I made none, that's correct.

21 Q. And other than the two settlement agreements  
22 themselves, in forming your opinion, you did not review  
23 any of the parties' documents. Is that correct?

24 A. That's correct.

25 Q. And in forming your opinion, you didn't review

1 any of the parties' depositions. Is that correct?

2 A. That's correct.

3 Q. You also didn't review any of the materials  
4 regarding the parties' underlying patent litigation.  
5 Is that correct?

6 A. That's correct.

7 Q. Or any of the materials regarding their  
8 settlement discussions?

9 A. That's correct.

10 MS. CREIGHTON: Your Honor, I apologize, but  
11 I'd like to inquire of respondents' counsel, it is my  
12 understanding that the agreement was that you did not  
13 proffer Professor Mnookin's report as -- and did not --  
14 it is not otherwise in evidence. Is that correct?

15 MS. SHORES: That's correct.

16 MS. CREIGHTON: Okay, I have no further  
17 questions, Your Honor.

18 JUDGE CHAPPELL: Thank you, Ms. Creighton.  
19 Redirect?

20 MS. SHORES: Nothing further, Your Honor.

21 JUDGE CHAPPELL: Thank you, Professor. You're  
22 free to go.

23 Off the record.

24 (Discussion off the record.)

25 JUDGE CHAPPELL: Schering-Plough, call your

1 next witness, please.

2 MS. SHORES: Schering calls Martin Driscoll.

3 JUDGE CHAPPELL: Have a seat, sir.

4 Before we start, Ms. Bokat?

5 MS. BOKAT: Yes, Your Honor.

6 JUDGE CHAPPELL: Have you reassessed your  
7 position on the AHP motion for in camera treatment.

8 MS. BOKAT: I asked somebody to verify that. I  
9 don't have an answer yet, Your Honor.

10 JUDGE CHAPPELL: Okay.

11 Please stand and raise your right hand.

12 Whereupon--

13 MARTIN J. DRISCOLL

14 a witness, called for examination, having been first  
15 duly sworn, was examined and testified as follows:

16 JUDGE CHAPPELL: Have a seat.

17 Please state your full name for the record.

18 THE WITNESS: My name is Martin John Driscoll.

19 DIRECT EXAMINATION

20 BY MS. SHORES:

21 Q. Good afternoon, Mr. Driscoll.

22 A. Good afternoon.

23 Q. Where do you live, sir?

24 A. I live in Colts Neck, New Jersey.

25 Q. And by whom are you employed?

For The Record, Inc.  
Waldorf, Maryland  
(301) 870-8025

1           A. I'm employed by ViroPharma, Incorporated.

2           Q. What is ViroPharma, sir?

3           A. ViroPharma is a research and development  
4 company developing medications, pharmaceuticals for  
5 viruses.

6           Q. And what position do you hold at ViroPharma?

7           A. My position is vice president for commercial  
8 operations and business development.

9           Q. How long have you been at ViroPharma, sir?

10          A. I have been employed at ViroPharma since  
11 November of 2000.

12          Q. And where were you employed before that?

13          A. Prior to that, I was employed by  
14 Schering-Plough Corporation.

15          Q. Why did you leave Schering-Plough?

16          A. I left Schering for a great opportunity. It  
17 was a chance to go to work for a small emerging  
18 company, help build a business.

19          Q. And that's ViroPharma?

20          A. That is ViroPharma, yes.

21          Q. And how long were you employed at  
22 Schering-Plough, sir?

23          A. I was employed at Schering-Plough for just  
24 under 18 years, since January of 1983.

25          Q. What position did you hold at Schering when you

1 left?

2 A. The position I had prior to leaving or when I  
3 left Schering-Plough was vice president for marketing  
4 and sales for primary care.

5 Q. And what is the -- what does primary care refer  
6 to, sir?

7 A. Well, it essentially was a marketing and sales  
8 business unit that we had created to implement a  
9 collaboration we had with Bristol-Myers Squibb for the  
10 promotion of an antibiotic product called Tequin and  
11 also to see the efforts of the company in the  
12 infectious disease area.

13 Q. And how long did you hold the position of vice  
14 president of marketing and sales for Schering-Plough  
15 primary care, if I've got that right?

16 A. If my recollection serves me correctly, I think  
17 it was since February of that same year. That would  
18 have been February of 2000.

19 Q. And what position did you hold before that?

20 A. Prior to that, I was the vice president for the  
21 Schering diabetes business unit.

22 Q. And how long did you hold that position?

23 A. If my recollection serves me correctly, that  
24 was since January of -- late January of 1998.

25 Q. Okay. And what position did you hold before

1       that?

2           A.   Prior to that, I held the position as vice  
3   president of marketing and sales for Key  
4   Pharmaceuticals.

5           Q.   What is Key Pharmaceuticals, sir?

6           A.   Key Pharmaceuticals functionally is a marketing  
7   and sales business unit within the Schering  
8   Laboratories Division, the U.S. division. I believe --  
9   technically, I believe it was a wholly-owned  
10   subsidiary, but it was functioning as a marketing and  
11   sales business unit.

12          Q.   And does Key focus on a particular category of  
13   pharmaceutical products?

14          A.   Well, when I ran the organization, it focused  
15   principally on two areas, cardiovascular medicines and  
16   respiratory medicines, but there were also some other  
17   lesser products in different therapeutic categories  
18   within the group.

19          Q.   Is one of those products K-Dur?

20          A.   Yes, one of those products was K-Dur.

21          Q.   And how long were you vice president of  
22   marketing and sales for Key Pharmaceuticals?

23          A.   I assumed that position in September of 1994.

24          Q.   And you served in that position, again, until  
25   late January of 1998. Is that correct?

1 A. That's correct, yes.

2 Q. Did there come a time, Mr. Driscoll, when you  
3 became involved in discussions about settling a patent  
4 infringement lawsuit between Key and ESI Lederle?

5 A. Yes.

6 Q. And when was that?

7 A. My recollection, that was late in 1996.

8 Q. And over what period of time did you -- were  
9 you involved in the settlement discussions?

10 A. Over the period right up until the time that I  
11 took my new role as head of the diabetes unit. So, it  
12 was approximately about a year.

13 Q. So, that's until late January of 1998?

14 A. Yeah, roughly late January, early February of  
15 that year.

16 Q. And where did those settlement discussions  
17 occur, sir?

18 A. Well, I recall most specifically discussions  
19 down in Philadelphia in the magistrate's or in the  
20 court of the judge that was to hear the case, and then  
21 also in the chambers of the magistrate.

22 Q. And was the magistrate functioning as a  
23 mediator, do you know?

24 A. Well, he was -- what I was told, he said very  
25 clearly to us, to me and to the rest of those from our

1 company as well as the other company, ESI, that he was  
2 mandated by the judge in the case to get a settlement.

3 MS. BOKAT: Your Honor, I would object and move  
4 to strike if that statement is offered for the truth of  
5 what the magistrate said.

6 JUDGE CHAPPELL: Basis?

7 MS. SHORES: Not offered for the truth, Your  
8 Honor.

9 JUDGE CHAPPELL: Why is it not?

10 MS. SHORES: It's offered to show the reasons  
11 for, as we'll get to, Schering entering into a  
12 settlement, which depended in part on the fact that the  
13 magistrate said certain things.

14 JUDGE CHAPPELL: And not for the truth of the  
15 matter?

16 MS. SHORES: Not for the truth of the matter,  
17 no.

18 JUDGE CHAPPELL: Overruled. I believe it's  
19 overruled. The way you stated it, I'm not sure, but I  
20 think she qualified it, so I'll overrule it.

21 BY MS. SHORES:

22 Q. Now, I think you said, Mr. Driscoll, that these  
23 settlement discussions with the magistrate took place  
24 over a period of about a year. Is that right?

25 A. That's correct.



1           Q. What other major responsibilities did you have  
2           in your job at the time?

3           A. Well, I had a great deal. The business unit  
4           that I ran at the time was, if I believe correctly, was  
5           the largest business unit in the U.S. division for  
6           Schering. At the time, I had just under a thousand  
7           employees, including all the sales force people. My  
8           organization was involved in the marketing and  
9           promotion of the company's biggest product, an allergy  
10          product called Claritin.

11                 I also oversaw our relationship with a company  
12          in the marketing of a product called Integrelin, which  
13          was not yet on the market, but I had to oversee the --  
14          was a member of the joint steering committee for that  
15          relationship. During that period, of course, we had  
16          our other products to market in the respiratory and  
17          cardiovascular fields.

18                 Also, in the latter part of 1997, specifically  
19          September, I was asked to get involved and played a  
20          critical role in the negotiation of a co-promotion  
21          agreement that we had with Novo Nordisk for diabetes  
22          products in the United States. So, I had a lot going  
23          on.

24                 JUDGE CHAPPELL: Ms. Bokat, having had the  
25          benefit of looking at live transcription, your last

1 objection is sustained; however, the second part,  
2 there's no need to strike or disregard because of the  
3 qualification by Ms. Shores.

4 MS. BOKAT: Thank you, Your Honor.

5 JUDGE CHAPPELL: You may proceed.

6 MS. SHORES: I'll try.

7 BY MS. SHORES:

8 Q. Mr. Driscoll, did there come a time that you  
9 became involved in a final settlement conference with  
10 the magistrate?

11 A. Well, there was -- the final settlement  
12 discussion from my standpoint was a couple of phone  
13 conversations I had with him when I had my sons at a  
14 basketball game.

15 Q. And where was the basketball game?

16 A. Well, I took my three sons to a New Jersey Nets  
17 basketball game. They were playing the Chicago Bulls.

18 Q. And what happened at the basketball game with  
19 respect to the settlement of the lawsuit?

20 A. Well, before I was -- it was late in the  
21 afternoon that day, I remember it vividly, it was a  
22 Friday, and I was asked to take my cell phone with me  
23 to the game, and I asked why, and I was told that the  
24 magistrate was probably going to want to talk to me,  
25 that he wanted to find a settlement in this case. So,

1 I took my cell phone to the game.

2 Q. And did anyone -- did the magistrate judge call  
3 you on your cell phone at the basketball game?

4 A. He sure did. I remember, again, it was the  
5 second quarter of the game, and I got a phone call --  
6 it was very loud, I had to leave my three young sons at  
7 the seat, and I had to go up to the foyer area in the  
8 arena just so I could hear, and it was the magistrate  
9 calling me directly on my line.

10 Q. And what did he say?

11 A. Well, he said -- I recall generally, I don't  
12 recall the specific quotes, but he generally said that  
13 that -- he said to me that there had been a hearing  
14 that day in our case against ESI Lederle, that -- he  
15 said that Schering-Plough had a good day but that he  
16 had been instructed by the judge to get a settlement  
17 that night. He told me that the judge was not going to  
18 be happy, not going to be happy with me, if he didn't  
19 get a settlement that night, and if he didn't get a  
20 settlement that night, that the judge said to have both  
21 parties in his courtroom by 8:00 the next morning.

22 Q. And what was --

23 MS. BOKAT: Your Honor, again, I renew my  
24 objection unless Mr. Driscoll's testimony is not  
25 offered for the truth of what the magistrate said in

1 the course of that phone conversation.

2 MS. SHORES: It's certainly not offered to  
3 prove the truth of the fact, Your Honor, that -- that  
4 he said that the parties would be required to come in  
5 the next morning or anything else. It's offered to  
6 show what Mr. Driscoll's reaction was to the statements  
7 made.

8 JUDGE CHAPPELL: So, it's not offered --

9 MS. SHORES: So, it's simply offered for the  
10 fact of the statements, Your Honor.

11 JUDGE CHAPPELL: It is not offered for the  
12 truth of the matter asserted?

13 MS. SHORES: It is not, Your Honor.

14 JUDGE CHAPPELL: Do you withdraw your  
15 objection?

16 MS. BOKAT: With that limitation, yes, I do.

17 JUDGE CHAPPELL: Thank you.

18 BY MS. SHORES:

19 Q. What if anything else did the magistrate say?

20 A. Well, again, he said that -- in the first  
21 conversation that we had to have a settlement that  
22 night. Again, he emphasized that if it didn't happen,  
23 that the judge wanted both parties in his courtroom the  
24 next morning at 8:00. I told him I wouldn't be there,  
25 he would have to come find me. I told him I didn't

1     want to be on the phone, I wanted to be with my sons  
2     enjoying the game. I told him this all was just  
3     foolish.

4             He said -- in that first discussion, I recall,  
5     he said I don't know why you can't arrive at a  
6     settlement here. The other party is in the other room  
7     dying, they're on the phone, crying, they can't  
8     understand why they have to be going through this, and  
9     he said, why can't we find ways, Marty, to come to a  
10    settlement on this?

11            Q. And what night was this basketball game, what  
12    night of the week, do you recall?

13            A. Well, I remember that. It was a Friday  
14    evening. I don't know the date, but I recall it was a  
15    Friday evening.

16            Q. So, the following day would have been a  
17    Saturday?

18            A. Would have been a Saturday, yes.

19            Q. Did the magistrate make any specific proposals  
20    about how the lawsuit should be settled?

21            A. Well, in that first discussion, I did emphasize  
22    to him one of the reasons why I was very displeased to  
23    be on the phone was -- I said to him, which I had said  
24    before, that I didn't think that ESI Lederle had a  
25    viable ANDA, that just by their whole behavior

1 throughout that whole year, the fact that they weren't  
2 answering the magistrate's instructions, doing what  
3 they were supposed to be doing, that I didn't think  
4 they had a viable ANDA, and the judge or the magistrate  
5 said to me -- he said, well, if that's the case, then  
6 you have no difficulty then perhaps with offering some  
7 compensation to them to settle this.

8 Q. Did he mention -- go ahead.

9 A. And he actually was throwing out numbers like  
10 \$20, \$25, \$30 million.

11 Q. And what was your response?

12 A. I said this is ridiculous. I said I don't even  
13 want to be on the phone. I said I don't even want to  
14 be on the phone, it's ridiculous. Again, I don't  
15 believe they have a viable ANDA. I don't think they're  
16 ever going to get approval. I think this is just a  
17 form of extortion, and I don't even want to be on the  
18 phone.

19 Q. And did that first telephone call that evening  
20 at the basketball game result in a settlement?

21 A. No, it did not.

22 Q. What happened next?

23 A. Well, I went back down to my seat and tried to  
24 watch the game, which we did, and he called again.

25 Q. And what did he say in this second phone call?

1           A. Well, he called again, and I remember it was  
2 near the end of the game, and he called to say that  
3 there had to be a settlement, that he thinks we can  
4 come to a mutually agreed position. Again, he  
5 emphasized that the individual, Mike Dey at ESI, was in  
6 the other room really struggling with this, that his  
7 management wasn't happy with him, but he thought that  
8 we could come to some middle ground working off some of  
9 the discussion we had in the first conversation.

10          Q. Was the topic or the fact or at least from your  
11 perspective the fact that ESI Lederle didn't have a  
12 product, was that raised in the second phone call?

13          A. Well, I said it again. Again, I was trying to  
14 emphasize to the judge why I thought this whole process  
15 was ridiculous. I said -- I said to him again, I said,  
16 we have a patent. It's a viable patent in our  
17 judgment. We've attempted to defend it. And I said,  
18 but more importantly, I don't think they have a viable  
19 product. Again, I continued to repeat that.

20                 Now, he said, well, then, if that's the case,  
21 then you would be willing to -- and then I don't recall  
22 the exact words, but put your money where your mouth  
23 is.

24          Q. And did you explore that possibility in this  
25 conversation with the magistrate?

1           A. Yes, we did. Yes, we did.

2           Q. And what --

3           A. And I must say, and my recollection is in the  
4 first conversation we did as well.

5           Q. And what was said about that topic?

6           A. Well, what was said between the two of us --  
7 and I don't recall who brought it up first -- but the  
8 idea was that if they received approval by a certain  
9 date for this ANDA, Schering-Plough, if the case was  
10 settled, would make a certain payment. If the date was  
11 later, it would be a lesser payment. And my  
12 recollection was the payments were in increments of  
13 one-half of the previous payment.

14          Q. And in the second phone call, did you agree on  
15 behalf of Schering to pay a certain amount in  
16 connection with that payment?

17          A. Yes, I did.

18          Q. And what amount was that, sir?

19          A. My recollection was if they were to receive  
20 approval I believe by July, that we would make a  
21 payment of \$10 million. And then six months later, if  
22 it was approved -- if it happened six months later, it  
23 would be one-half that sum, \$5 million, and so forth.

24          Q. And at the time that you made that commitment  
25 on behalf of Schering, what was your expectation about



1       whether Schering would have to pay that money?

2           A.   Well, my expectation was that that would have  
3       to have an approval process, it would have to be  
4       reviewed by our attorneys, it would have to be  
5       scrutinized extensively --

6           Q.   Let me ask the question again.

7                   What was -- did you have any expectation about  
8       whether you thought Schering would likely have to pay  
9       ESI \$10 million by July of 1998?

10          A.   Well, I was certain --

11                  JUDGE CHAPPELL:   Ms. Shores, excuse me, I  
12       understand I don't have an objection, but let's try not  
13       to lead the witness so much.

14                  MS. SHORES:   Okay.

15                  JUDGE CHAPPELL:   Thank you.

16                  THE WITNESS:   Oh, I was certain in my mind --

17                  JUDGE CHAPPELL:   Excuse me, she needs to  
18       restate that question, sir.

19                  THE WITNESS:   Oh, I'm sorry.

20                  BY MS. SHORES:

21                  Q.   What, if any, expectation did you have about  
22       whether Schering would have to pay the \$10 million by  
23       July 1998?

24                  A.   I was certain in my mind that we wouldn't have  
25       to pay it.

1           Q. Now, I think you said earlier with respect to  
2           the first phone call that you did not settle the case,  
3           and why did you agree to settle the case on the second  
4           phone call?

5           A. I had a judge -- I had a magistrate on the  
6           phone threatening me personally to be forced into court  
7           the next day. I came to the conclusion in my mind that  
8           I was still convinced that if the litigation -- if the  
9           patent defense continued forward, that we would win,  
10          but that because of his assertions, everything he was  
11          saying about the judge's view of the case, his  
12          displeasure with us, the pressure being put on me, that  
13          we would -- there would be losses within that win,  
14          that -- I don't know what it would be, but my deep  
15          concern was that now we were at significant risk  
16          because of what the magistrate was telling me about the  
17          judge's view, that he simply didn't want to hear this  
18          case, and the threats -- in my mind, they were  
19          threats -- having to be in court the next day, that the  
20          judge was very unhappy with us, and the whole process  
21          over the whole year, you know, that the -- in my view,  
22          the judge was forcing us to just negotiate against  
23          ourselves in a process that I didn't even want to be  
24          in.

25          Q. Did you have any further involvement, Mr.

1 Driscoll, with the settlement after this phone call  
2 with the magistrate?

3 A. No, I didn't.

4 Q. Have you ever seen a copy of the settlement,  
5 sir?

6 A. No, I haven't.

7 MS. SHORES: I don't have any further  
8 questions, Your Honor.

9 JUDGE CHAPPELL: Thank you. It's just past  
10 12:30. I think we're going to take our lunch break for  
11 the afternoon. Do the parties want to raise anything  
12 before we take a break?

13 MS. BOKAT: Could I have 30 seconds to read a  
14 note I was passed and then maybe I can provide some  
15 information to the Court on an outstanding question?

16 JUDGE CHAPPELL: Yes, you may. That's what I  
17 was hinting for, Ms. Bokat.

18 MS. BOKAT: I'm subtle.

19 We expect to be filing an opposition to AHP's  
20 motion for in camera status hopefully within the hour.

21 JUDGE CHAPPELL: So, are you saying the  
22 representation in their motion is incorrect that  
23 complaint counsel agreed not to oppose?

24 MR. MEIER: Your Honor, if I might approach  
25 and -- I could try to answer that.

1 JUDGE CHAPPELL: Yes, and understand, this is  
2 not a hearing on that motion. I'm just trying to  
3 clarify your position.

4 MR. MEIER: I understand, Your Honor. Just  
5 very quickly, the motion that's being made now is an  
6 AHP motion for indefinite in camera treatment, and we  
7 are opposed to indefinite in camera treatment. We have  
8 no objection to in camera treatment during the course  
9 of this trial. We have no objection to their request  
10 for certification to the Commission of the appeal of  
11 Your Honor's order. We have no objection to the  
12 Commission reviewing Your Honor's order denying the  
13 protective order, and if the matter is certified to the  
14 Commission, we expect to file an answer explaining to  
15 the Commission why Your Honor's order denying the  
16 protective order and finding the waiver of privilege  
17 was correct.

18 Again, what we oppose here is a motion for  
19 indefinite in camera treatment. As Your Honor will --  
20 after Your Honor reviews AHP's papers, you'll find that  
21 there is no justification offered for indefinite in  
22 camera treatment other than to rehash the claims of  
23 privilege that Your Honor has already found was  
24 waived --

25 JUDGE CHAPPELL: Well, let me stop you there.

1 I'm not going to hear argument on reasons, because the  
2 other party is not here, so I've heard enough.

3 MR. MEIER: Actually, AHP has a person here.

4 JUDGE CHAPPELL: But this is not a hearing on  
5 that motion. I just wanted to establish your position,  
6 and I will read your opposition or response when it  
7 comes in. Thank you.

8 MR. MEIER: Thank you, Your Honor.

9 JUDGE CHAPPELL: We are in recess until 1:40,  
10 1-4-0. Thank you.

11 (Whereupon, at 12:35 p.m., a lunch recess was  
12 taken.)

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1 AFTERNOON SESSION

2 (1:40 p.m.)

3 JUDGE CHAPPELL: Back on the record.

4 You finished your direct examination. Is that  
5 correct?

6 MS. SHORES: I did, Your Honor.

7 JUDGE CHAPPELL: Any cross?

8 MS. BOKAT: Yes, please, Your Honor.

9 JUDGE CHAPPELL: You may proceed.

10 MS. BOKAT: Thank you.

11 CROSS EXAMINATION

12 BY MS. BOKAT:

13 Q. Good afternoon, Mr. Driscoll.

14 A. Good afternoon, Ms. Bokat.

15 MS. BOKAT: Before I go into my questions, I  
16 just wanted to clarify one thing. It's my  
17 understanding that Mr. Driscoll is here today talking  
18 just about the Schering and ESI agreement, that he may  
19 be back another day to talk about the  
20 Schering/Upsher-Smith agreement.

21 MS. SHORES: That's correct. He will be back  
22 next week to talk about the Upsher part of the case,  
23 Your Honor.

24 MR. CURRAN: That's my understanding as well,  
25 Your Honor.

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1 JUDGE CHAPPELL: Okay.

2 MS. BOKAT: Thank you.

3 BY MS. BOKAT:

4 Q. Mr. Driscoll, did you receive any advice from a  
5 lawyer about settling the patent litigation with ESI?

6 A. Yes.

7 Q. What lawyer?

8 A. Well, I received advice from both internal  
9 counsel and outside counsel.

10 Q. Who was the internal counsel?

11 A. The internal counsel included John Hoffman and  
12 Susan Lee, as I recall, and the outside counsel were  
13 gentlemen from I recall the firm Covington.

14 Q. When did you receive that advice?

15 A. Oh, I received advice for a year.

16 Q. Over the course of 1997?

17 A. From the period, like I said earlier today,  
18 from the period of the latter part of '96 through the  
19 point the end of January of '98, early February of '98.

20 Q. What was that advice?

21 MS. SHORES: Objection, Your Honor, that calls  
22 for privileged information.

23 JUDGE CHAPPELL: Sustained.

24 BY MS. BOKAT:

25 Q. You talked before the lunch break about a

1 negotiating session with a magistrate on a Friday night  
2 late in January 1998.

3 A. I believe it was late January, and I'm certain  
4 it was a Friday night.

5 Q. Prior to that Friday night, Schering --

6 JUDGE CHAPPELL: Is anyone going to ask him who  
7 won that game?

8 MS. SHORES: I almost did that, Your Honor.

9 THE WITNESS: The Bulls.

10 JUDGE CHAPPELL: Thank you.

11 THE WITNESS: In fact, Jordan had an awful  
12 three quarters, but in the fourth quarter he kicked it  
13 in, beat the Nets that night.

14 JUDGE CHAPPELL: Thank you, sir.

15 You may proceed.

16 BY MS. BOKAT:

17 Q. In your telephone conversations with the  
18 magistrate, were you able to catch the fourth quarter  
19 of that game?

20 A. Not as much as I would have liked.

21 Q. Prior to that Friday night, Schering and ESI  
22 had not yet reached an agreement to settle their patent  
23 litigation, had they?

24 A. No.

25 Q. Prior to that Friday night, Schering and ESI



1       had not agreed on how much money Schering would pay ESI  
2       to settle the patent litigation, had they?

3           A.   No.

4           Q.   Prior to that Friday night, the two parties  
5       hadn't agreed on when ESI would bring their generic to  
6       market, had they?

7           A.   No.

8           Q.   The settlement you worked out that Friday night  
9       in January, did that cover licenses from ESI to  
10      Schering?

11          A.   No, I didn't participate in that at all.

12          Q.   So, the agreement you negotiated that night was  
13      just about the settlement of the patent litigation. Is  
14      that correct?

15          A.   The discussion I was having with the magistrate  
16      that night just involved what you said, yes.

17          Q.   Under the agreement you worked out that night  
18      in January, Schering would pay ESI \$5 million  
19      initially, right?

20          A.   No, I don't recall discussing that.

21          Q.   Do you recall discussing Schering paying ESI a  
22      sum of money dependent on when ESI's generic got  
23      tentative approval from the Food and Drug  
24      Administration?

25          A.   Yes.

1           Q. And that was -- the amount of that payment  
2 depended on how quickly ESI got FDA tentative approval.  
3 Is that --

4           A. That's correct.

5           Q. So, the sooner ESI got the approval, the more  
6 money it would get from Schering up to \$10 million.

7           A. That's correct, because I was absolutely  
8 certain that they would never get approval, so that was  
9 the basis for that.

10          Q. The idea of that graduated payment was your  
11 idea, was it not?

12          A. Ah, no -- I must tell you, I don't recall whose  
13 idea it was. The judge and I were back and forth on a  
14 number of things. I'm not certain if I proffered it  
15 first, but I may have.

16               MS. BOKAT: Your Honor, may I approach the  
17 witness?

18               JUDGE CHAPPELL: Yes, ma'am.

19               MS. BOKAT: I hope to be able to put this on  
20 the ELMO, but I do have a paper copy for the Court if  
21 you would like one.

22               JUDGE CHAPPELL: Since you're here, I'll take  
23 it. Thank you.

24               MS. BOKAT: Again, Ms. Hertzman is going to  
25 provide the technical expertise that I lack.

1 JUDGE CHAPPELL: I bet she doesn't change any  
2 exhibits. We did get that corrected, Ms. Hertzman.  
3 Thank you.

4 MS. HERTZMAN: I'm happy that it worked out.

5 BY MS. BOKAT:

6 Q. Dr. Driscoll, I don't know whether it's going  
7 to be easier for you to read it on the screen or read  
8 it on the paper copy. I'm going to be referring to  
9 page 124.

10 A. Okay.

11 Q. Starting at -- I'm sorry.

12 A. Here we go, I see, okay.

13 Q. So, you have page 124?

14 A. I do.

15 Q. Starting at line 16, it reads:

16 "QUESTION: Was it your idea to link the monies  
17 to the FDA approval date?

18 "ANSWER: Again I want to go back to what I  
19 said earlier. I didn't think they had a real product.  
20 I thought they were just extorting us, and I had no  
21 desire to settle, didn't want to. So, my thought was,  
22 it's apparent here that we're going to suffer if we  
23 don't have -- come to some settlement. We're going to  
24 suffer in our case with the Judge in court. So, I had  
25 an idea that I don't believe, one, they don't have a

1 product, that maybe X amount of payment is made to them  
2 if they got approval this year, July 1, which I didn't  
3 think would happen, I don't think they ever were going  
4 to get approval, and Y amount if they got approved by  
5 the end of the --" it says world, it's probably year --  
6 "and just lower amounts as time wore on.

7 "That was my concept I threw at the Judge. He  
8 thought it was great."

9 Does that refresh your recollection about  
10 whether it was your idea or the judge magistrate's?

11 A. Yes, it does.

12 Q. And what is your current recollection?

13 A. It was my idea.

14 Q. At the time that Friday night in January that  
15 you reached the agreement with ESI, did you still have  
16 responsibility for K-Dur 20?

17 A. Yes, I did, and my hesitancy is only because  
18 right about that time I was then asked to assume a new  
19 role, which was running the diabetes unit, but I'm  
20 pretty certain that I was still running the Key  
21 Pharmaceuticals unit at that point.

22 Q. Did you ever lay eyes on Judge DuBois, the  
23 judge in the patent litigation against ESI?

24 A. No.

25 Q. Did you ever speak with Judge DuBois?

1 A. No.

2 Q. Did you ever hear Judge DuBois say that he  
3 would not try the case between Schering and ESI?

4 A. No, I heard that from his magistrate.

5 Q. But you did not hear that from the judge?

6 A. No.

7 Q. Other than the patent litigation between  
8 Schering and ESI and Schering and Upsher, have you been  
9 involved in other litigation, whether it was patent  
10 litigation or not?

11 A. Would you repeat that, please?

12 Q. Sure. I'm trying to leave aside for a moment  
13 the Upsher and ESI litigation.

14 A. Um-hum.

15 Q. Other than that, have you been involved in  
16 other litigation?

17 A. Yes.

18 Q. In the other litigations, did the judge ever  
19 urge the parties to settle?

20 A. I don't recall that.

21 Q. You mentioned before the lunch break that --  
22 and correct me if I'm misphrasing it -- you thought  
23 there would be losses within the win. Did you think  
24 that Judge DuBois would ignore the facts in the case?

25 A. Oh, I had no idea what he would ignore and what

1 he would listen to. I'm obviously not an attorney.  
2 That particular evening, I was under a lot of pressure  
3 by the magistrate based on his statements, his threats.  
4 I had my children down -- several seats down below, I  
5 was worried about them. This process had gone on for  
6 more than a year.

7 It was continually stated to me that we needed  
8 to come to a settlement, continually stated the judge  
9 would not hear the case, and I wasn't certain what the  
10 result was going to be, because I'm obviously not an  
11 attorney, but I was concerned based on the statements  
12 and so forth that it probably wasn't going to be the  
13 stellar result that we had first hoped when we started  
14 the litigation.

15 MS. BOKAT: Your Honor, I move to strike that  
16 answer as nonresponsive. I think the question was did  
17 he think the judge would ignore the facts.

18 JUDGE CHAPPELL: The objection's sustained.  
19 The part of the answer beyond, "Oh, I have no idea what  
20 he would ignore and what he would listen to," the part  
21 that follows will be disregarded.

22 BY MS. BOKAT:

23 Q. Mr. Driscoll, did you think that Judge DuBois  
24 would ignore the law?

25 A. I don't know the law. I'm not an attorney,

1 just a business person running a business unit.

2 Q. But you didn't think the judge would ignore the  
3 law.

4 A. That's speculation. I couldn't -- I have no  
5 idea what to speculate the judge would or would not do.  
6 All I knew was that the pressure I was under at that  
7 time, I had a judge on the phone with me, a magistrate,  
8 and he was very clear that we had to have a settlement  
9 that night, and if I didn't come to a settlement that I  
10 had to be in the judge's chambers the next morning --  
11 or in the courtroom the next morning at 8:00.

12 Q. So, the threat was you'd have to travel to  
13 Philadelphia to be in a courtroom on a Saturday?

14 A. Well, the threat in my mind was beyond that.  
15 The threat in my mind was the risk to the case. Again,  
16 I'm not an attorney, so I couldn't be specific in that,  
17 but just based on my own view and all of the threats  
18 and the pressures being brought to bear, I thought  
19 there would be risk to the case that I did not believe  
20 existed before all these statements from the magistrate  
21 to me.

22 Q. Judge DuBois didn't participate in any of the  
23 settlement negotiations that you participated in, did  
24 he?

25 A. I never saw him participate. I wasn't aware

1       that he did.

2           Q.   That Friday night, Schering and ESI hadn't  
3       committed their agreement to a written document, had  
4       they?

5           A.   Not that I'm aware of.

6           Q.   Are you aware of whether the judge or the  
7       magistrate ever saw the written settlement agreement  
8       between Schering and ESI?

9           A.   I don't know that.

10          Q.   On that Friday night, had ESI agreed that  
11       between January 2004 and September 2006 they would  
12       market no more than one generic of K-Dur 20?

13          A.   I don't know that. I don't recall that.

14          Q.   By that night in January, that Friday night,  
15       had ESI agreed that they would file no more than one  
16       ANDA for a generic of K-Dur 20?

17          A.   I don't know. I don't recall that.

18          Q.   That Friday night in January, had ESI agreed  
19       that they would not support a bioequivalence study on  
20       an ANDA for a generic of K-Dur 20?

21          A.   Again, I don't recall that either. I didn't  
22       discuss that with the magistrate.

23          Q.   Did you discuss that with ESI?

24          A.   No.

25          Q.   Did the judge or the magistrate, that's Judge



1 DuBois or Magistrate Reuter, say anything about the  
2 merits of the patent case between Schering and ESI?

3 A. Well, as I said earlier, I never saw nor spoke  
4 with Judge DuBois, so I don't know. Judge Reuter,  
5 throughout that year I listened as both sides during  
6 discussions in the magistrate's chambers discussed the  
7 various merits of the cases. I can't point to anything  
8 specific, though.

9 Q. I think you mentioned earlier today that you  
10 thought that Schering would win that patent litigation  
11 with ESI. I was wondering what your basis was for that  
12 belief.

13 MS. SHORES: All right, Your Honor, I have to  
14 object to that, because it could call for a privileged  
15 communication. I have to say, Your Honor, that I was  
16 not prepared for that part of his answer when Mr.  
17 Driscoll gave it. I think my question did not  
18 intentionally evoke that response, and to the degree  
19 that it is argued that by saying that he thought we  
20 would win the case that that is some sort of a -- I  
21 don't believe it's a waiver of anything, but if they  
22 were to argue that it is, I am happy to have that part  
23 of his answer stricken from the record.

24 MS. BOKAT: I think having that portion of his  
25 earlier answer stricken from the record would be a good

1 idea, and if that were done, I would withdraw the  
2 question.

3 JUDGE CHAPPELL: And then you would withdraw  
4 the objection?

5 MS. SHORES: I would, Your Honor.

6 JUDGE CHAPPELL: We have a deal. Thank you.  
7 You may proceed.

8 BY MS. BOKAT:

9 Q. Was Schering planning that if ESI actually  
10 brought its generic of K-Dur 20 to the market, that  
11 Warrick would launch a generic?

12 A. I wouldn't say "planning." I didn't run  
13 Warrick, so I wasn't directly involved in the plans for  
14 Warrick. It could have been an option that we might  
15 have employed. We had done that in the past with other  
16 products, but again, not having run Warrick or not  
17 being involved in their day-to-day business, I didn't  
18 participate in plans for that.

19 Q. So, you don't know whether or not there was a  
20 plan to bring a Warrick generic to market if ESI  
21 entered with their generic?

22 A. I don't recall reviewing a plan of that nature.

23 Q. Do you recall hearing about such a plan?

24 A. No.

25 MS. BOKAT: Your Honor, may I approach the

1 witness to give him an exhibit, please?

2 JUDGE CHAPPELL: Yes, you may.

3 MS. BOKAT: Thank you.

4 It looks like Ms. Hertzman has managed to pull  
5 it up. Would you like a paper copy as well, Your  
6 Honor?

7 JUDGE CHAPPELL: No, that's fine, I can see it  
8 on the screen.

9 MS. BOKAT: Okay.

10 BY MS. BOKAT:

11 Q. Mr. Driscoll, I have handed you what has been  
12 admitted as CX 60. Is that a memorandum to --  
13 addressed to you?

14 A. I'm one of the people that it's addressed to,  
15 yes.

16 Q. The date of that memo is March 8th, 1995,  
17 correct?

18 A. That's correct.

19 Q. At that time, was Bob Baldini your boss?

20 A. Yes, he was.

21 Q. At that time, was Andrea Pickett the product  
22 manager for K-Dur?

23 A. Yes, I believe so. I believe that was her  
24 title at the time.

25 Q. I would ask you if you would turn, please, to

1 the page that in the lower right-hand corner is  
2 numbered SP 076523.

3 In 1995, did your department expect that  
4 generic competition to K-Dur 20 might come within two  
5 years?

6 A. No.

7 Q. Do you know why Andrea Pickett said that on the  
8 bottom of that page where it reads, "Generic  
9 competition to K-DUR 20 may come within 2 years"?

10 A. Well, I would have to speculate about what she  
11 thought, but it's very typical for us in looking at  
12 businesses, you look at various scenarios that could  
13 occur, whether the chance of that occurring is remote  
14 or highly likely, and we often times in any business  
15 look at various scenarios, plan out various scenarios,  
16 from the most extreme or I should say least likely to  
17 most likely, and that may be what she did here as well.

18 Q. So, one scenario contemplated was that there  
19 might be a generic competitor to K-Dur 20 within two  
20 years of 1995?

21 A. Yeah, perhaps.

22 Q. In the mid-1990s, were the sales of K-Dur  
23 growing faster than the sales of other potassium  
24 chloride supplements?

25 MS. SHORES: Your Honor, I would object to this

1 as beyond the scope of the direct examination.

2 MS. BOKAT: Your Honor, we heard testimony from  
3 Mr. Driscoll earlier today about the reasons for  
4 Schering entering into the settlement agreement with  
5 ESI. It's complaint counsel's contention that among  
6 those reasons were that K-Dur 20 had large sales and  
7 profits that would be steeply eroded if generic  
8 competition came to market and that one of the  
9 incentives to Schering for entering into that  
10 settlement with ESI was to protect those sales and  
11 profits.

12 JUDGE CHAPPELL: So, your line of inquiry is  
13 going to impeach the witness for a statement he made on  
14 his direct exam?

15 MS. BOKAT: I don't know that I could fairly  
16 characterize it as impeachment, because I am not trying  
17 to say to Mr. Driscoll that the reason he testified to  
18 didn't exist. I'm trying to point out that there were  
19 additional reasons that he didn't mention earlier  
20 today.

21 JUDGE CHAPPELL: Well, you will be allowed to  
22 inquire as to his knowledge of those. In that regard,  
23 the objection is overruled.

24 MS. BOKAT: I think we have a question pending.  
25 Would it be all right if the court reporter read that

1 back?

2 JUDGE CHAPPELL: Yes.

3 (The record was read as follows:)

4 "QUESTION: In the mid-1990s, were the sales of  
5 K-Dur growing faster than the sales of other potassium  
6 chloride supplements?"

7 THE WITNESS: That's seven-eight years ago if  
8 you go to the mid-nineties, so I'd have to go off my  
9 recollection of the market at that time. K-Dur 20 was  
10 growing nicely, but I recall that the -- since it was a  
11 very competitive market, I thought my recollection was  
12 the 8 milliequivalent and 10 milliequivalent  
13 formulations were growing in toto at a rate greater  
14 than K-Dur 20 milliequivalent. That's my recollection,  
15 but I must tell you it's seven or eight years ago. I  
16 haven't looked at that market in a long time.

17 MS. BOKAT: Your Honor, may I approach the  
18 witness, please? Ms. Hertzman, the next exhibit is  
19 number 746.

20 JUDGE CHAPPELL: Yes, you may.

21 MS. BOKAT: Your Honor, would you prefer a  
22 paper copy or relying on the monitor?

23 JUDGE CHAPPELL: As long as it's on the  
24 monitor, I don't need a paper copy, thank you.

25 BY MS. BOKAT:

For The Record, Inc.  
Waldorf, Maryland  
(301) 870-8025

1           Q. Mr. Driscoll, would you be willing, please, to  
2           turn to the second page in CX 746, and to help find the  
3           page, the Bates number in the lower right-hand corner  
4           is SP 2300370.

5           A. I have it.

6           Q. Looking at the first paragraph there under the  
7           heading Market Overview, the third sentence reads,  
8           "K-Dur sales continue to increase, up 20% from the  
9           previous year, which is significantly higher than the  
10          market's overall growth."

11          Does that help refresh your recollection about  
12          sales -- about the growth in sales of K-Dur in the  
13          mid-1990s compared to other potassium chloride  
14          supplements?

15          A. Sure, it tells me that sales dollar growth was  
16          stronger than the market, but I'd have to read this  
17          report further. I would imagine unit volume growth  
18          might have been similar to K-Dur 20 or at least K-Dur  
19          20 to the rest of the market. K-Dur 20, because of its  
20          unique features, was priced higher than most other  
21          potassium supplements in the marketplace. So, sales  
22          line growth would be larger than the unit line growth.

23          MS. BOKAT: Your Honor, may I approach the  
24          witness, please?

25          JUDGE CHAPPELL: Yes, you may.

1 BY MS. BOKAT:

2 Q. Mr. Driscoll, when you were with Key, Key  
3 prepared five-year forecasts, did it not?

4 A. We often times prepared five-year forecasts,  
5 yes.

6 Q. They were prepared on a regular basis, were  
7 they not?

8 A. I can't say with certainty they were performed  
9 on a regular basis. We would do them from time to  
10 time.

11 Q. Were they prepared for the purposes of  
12 production planning, sourcing raw materials and  
13 determining the amount of packaging you would need?

14 A. Yes, as well as other reasons.

15 Q. Looking at the first page of CX 267, that bears  
16 the Bates number SP 2300212.

17 A. Yes, ma'am.

18 Q. Have you seen that page before?

19 A. I don't recall seeing this specifically, but --  
20 no, I don't recall seeing this specifically.

21 Q. Mr. Driscoll, do you still have that transcript  
22 I handed you a few minutes ago?

23 A. Yes, ma'am.

24 Q. Would you be willing to look at page 22 in that  
25 transcript, please?



1           A. I have it.

2           Q. Or actually, maybe to be clearer we should  
3 start on page 20 down on line 21 of page 20. Are you  
4 with me?

5           A. You're challenging my eyesight, but yes.

6           Q. Okay. The lighting in here isn't very good  
7 either.

8                   Beginning at line 21, I identified Driscoll  
9 Exhibit Number 2.

10                   "MS. BOKAT: Driscoll Exhibit 2 bears the Bates  
11 number SP 2300212," and then if we go on to page 22,  
12 we'll know which document we're talking about. Picking  
13 up on page 22, line 10:

14                   "Looking at Driscoll Exhibit 2, does this cover  
15 just the K-Dur 20 product or other K-Dur products as  
16 well?

17                   "ANSWER: I recall this document, because there  
18 was a mistake on it. The listing had K-Dur when, in  
19 fact, this covers K-Dur 20 milliequivalent solely."

20                   Does that refresh your recollection about  
21 whether you've seen this document before?

22           A. No, it doesn't.

23           Q. Do you disagree with the portion of the  
24 transcript where you said that you had seen it before?

25           A. Oh, no. I mean, I see many documents every

1 day. This was back in July of 2000, so...

2 Q. Looking at CX 267, which is -- I'm sorry, the  
3 exhibit. So, this is for K-Dur 20, this forecast,  
4 right?

5 MS. SHORES: Well, objection, Your Honor. I  
6 think he said he can't remember having seen it.

7 JUDGE CHAPPELL: You didn't refresh his  
8 recollection, Ms. Bokat, so we need to move on.  
9 Objection sustained.

10 BY MS. BOKAT:

11 Q. In the 1990s, were the dollar prices of K-Dur  
12 20 increasing each year?

13 A. I can't say with certainty that they were  
14 increasing each year.

15 Q. Generally speaking, were the prices of K-Dur 20  
16 increasing?

17 A. There were price increases taken or put in  
18 place for the product during the nineties, I do recall  
19 that. Whether it was each year, I don't know.

20 MS. BOKAT: Your Honor, may I approach the  
21 witness, please?

22 JUDGE CHAPPELL: Yes, you may.

23 MS. BOKAT: Thank you.

24 BY MS. BOKAT:

25 Q. Looking at CX 49, Mr. Driscoll, is this a price

1       increase history for K-Dur 10 and 20?

2           A.   Well, as I read the document you gave to me,  
3       it's titled Price Increase History for certain indices,  
4       and it lists K-Dur 10.  I don't see on this sheet --

5           Q.   I think maybe if you turn --

6           A.   -- K-Dur 20.

7           Q.   I'm sorry, I didn't mean to interrupt.

8           A.   I just see K-Dur tablets, 10 milliequivalent.

9           Q.   I think if you look at the third page, it  
10       starts in with K-Dur 20 on that page.

11          A.   Yep, you're correct.

12          Q.   There's a column heading on that page, we're on  
13       the third page again within CX 49 --

14          A.   Yes.

15          Q.   -- the second column from the right is headed  
16       N, as in Nancy, D, as in David, P, as in Paul.  What is  
17       NDP?

18          A.   Oh, I do know.  That is an acronym for net  
19       direct price.

20          Q.   And the next column heading to the right from  
21       that, AWP.  Are you familiar with the term "AWP"?

22          A.   I am.

23          Q.   Can you explain what it is?

24          A.   I hope.  It's an acronym for average wholesale  
25       price.  Average wholesale price in the industry has

1 traditionally been an arbitrary price. It's supposed  
2 to reflect the price that a wholesale drug distributor  
3 would be charging to the retail marketplace. It's  
4 supposed to reflect that. In reality, based on local  
5 markets, local competitions, the wholesale price varies  
6 in different markets. So, this was simply just an  
7 arbitrary point, if you will.

8 Generally, at least my experience was that  
9 generally that percent, that sum or that number was  
10 about 16 and two-thirds above the net direct price,  
11 generally.

12 Q. Thank you. And what is net direct price?

13 A. Net direct price, at least the terminology we  
14 utilized, reflected the price that we charged to  
15 wholesale drug distributors. In effect, the ex factory  
16 price.

17 Q. "We" being Schering?

18 A. Yes, that's right.

19 Q. Would you take a minute to look at the  
20 remaining pages in CX 49, in other words, the third,  
21 fourth, fifth and sixth.

22 A. Okay. Yes, ma'am.

23 Q. Does that refresh your recollection about  
24 whether the prices of K-Dur 20 were increasing each  
25 year from 1995 to the year 2000?

1           A. Well, according to this report that you've  
2           given me, it certainly appears as though price  
3           increases were taken each year in the years '95 through  
4           2000.

5                   MS. BOKAT: May I approach the witness, Your  
6           Honor?

7                   JUDGE CHAPPELL: Yes.

8                   BY MS. BOKAT:

9           Q. Mr. Driscoll, is CX 695 a quarterly product  
10          margin report?

11          A. The sheet you gave me, it's titled that, so  
12          yes, I guess.

13          Q. Looking at the first page of CX 695, there's a  
14          heading Year to Date, about halfway across the page?

15          A. Yes, ma'am.

16          Q. And under that it says, "Actual"?

17          A. Yes, ma'am.

18          Q. Do you see that?

19                   If we go to the first line for gross sales and  
20          go across under that Year to Date Actual, does that  
21          show us actual gross sales for the year 1995?

22          A. Yes.

23          Q. And if we continue on across that line to the  
24          column heading Prior Year to Date Actual?

25          A. Yes, ma'am.

1 Q. Does that show us gross sales for 1994?

2 A. Yes.

3 Q. Now, if we go down the Year to Date Actual  
4 column to where it says Product Margin?

5 A. Yes, ma'am.

6 Q. I'm sorry, this gets a little tricky, because  
7 there are two Product Margin rows here. The first one  
8 is right below Total Other Marketing.

9 A. Yes, ma'am.

10 Q. Okay. Looking at that Product Margin line, if  
11 we go across to Year to Date Actual, does that show us  
12 1995 product margins?

13 A. Well, it's -- it shows us the product margin  
14 resulting from the expenditures that are listed on this  
15 particular page. This -- I recall these schedules, and  
16 when these schedules were constructed, they would not  
17 include any of the prior research that might have been  
18 done for the product or other activities investing in  
19 its development in the marketplace. This was meant to  
20 show the product margin after those particular expenses  
21 during a particular period in time.

22 Q. So, did this show gross sales -- I'm sorry,  
23 product margins after subtracting out standard costs  
24 and selling costs?

25 A. And these other expenses or investments that

1     you see listed here on this particular schedule.

2           Q.   Okay, but it doesn't take account of prior  
3     research expenditures.  Is that right?

4           A.   Or even -- or even, if I recall correctly,  
5     research expenditures during that particular year as  
6     well that we might have done for phase IV studies or  
7     other regulatory activity required by the Food and Drug  
8     Administration, for example.

9           Q.   Between 1994 and the year 2000, were the  
10    product margins for K-Dur increasing?

11          A.   Ms. Bokat, I don't recall.

12          Q.   Okay, would you be willing to take a look at  
13    the pages in the CX 695 -- we've been looking at the  
14    Product Margin line.  The first page I think gives us  
15    1994 and '95, and then subsequent pages go through '96,  
16    '97, '98, '99 and 2000.

17          A.   Well, based on these schedules, the answer to  
18    your question is yes, but I would have to tell you that  
19    that's only reflecting these particular type of  
20    investments or expenditures.  These -- the schedules  
21    here I'm saying do not include investments that might  
22    have been taken in development or research or so forth.

23                Moreover, I would have expected during this  
24    period of time for these expenditures to be reducing,  
25    because we were adjusting our business to invest in

1 other brands more heavily. We had finite resources,  
2 and I was re-allocating resources to other brands.

3 Q. But the product margins of K-Dur were  
4 increasing in these years from '94 to 2000 as you have  
5 just defined the product margins?

6 A. Based on these schedules and based on these  
7 expenses, yes.

8 Q. By the year 2000, the product margin as shown  
9 here for K-Dur had increased to \$248 million, had it  
10 not, which I see on page 020701?

11 A. Again, I -- one, as I testified earlier, I  
12 didn't run Key at the time, so I was not as clearly  
13 familiar, but based on this schedule, this listing of  
14 investments or expenditures, that's correct.

15 Q. If a generic for K-Dur 20 had entered the  
16 market, the branded K-Dur 20 would have lost sales,  
17 would it not?

18 MS. SHORES: Your Honor, forgive me, I just  
19 have to object again as beyond the scope of what he  
20 testified to on direct. I mean, if it's helpful, it's  
21 possible that Mr. Driscoll will need to get into these  
22 matters on direct examination next week, but he  
23 certainly didn't do so today.

24 JUDGE CHAPPELL: How is that question related  
25 to his direct testimony?



1 MS. BOKAT: Well, I was about to tie up this  
2 line of questioning about Schering's motivation for  
3 entering into that agreement with ESI, that it had  
4 growing sales and profits that would be at stake in the  
5 face of generic competition.

6 JUDGE CHAPPELL: I'll overrule the objection  
7 and allow it, but the latitude is about gone here. We  
8 need to connect it up real soon.

9 MS. BOKAT: I understand.

10 JUDGE CHAPPELL: Proceed.

11 Susanne, would you read the question back.

12 (The record was read as follows:)

13 "QUESTION: If a generic for K-Dur 20 had  
14 entered the market, the branded K-Dur 20 would have  
15 lost sales, would it not?"

16 THE WITNESS: You're asking me to speculate,  
17 because I was not running the business when that  
18 occurred, but history shows in the marketplace that  
19 when generic formulations of an innovator product comes  
20 to the market, the sales of the innovator or branded  
21 product decline.

22 BY MS. BOKAT:

23 Q. Do the profits of the innovator product decline  
24 as well?

25 A. Generally.

1 MS. BOKAT: Your Honor, may I have three  
2 minutes to consult with my colleagues and see if  
3 there's anything further that I have and see if I can  
4 wrap up my conversation with Mr. Driscoll?

5 JUDGE CHAPPELL: Exactly three minutes? Yes,  
6 you may.

7 MS. BOKAT: And you have the right to hold me  
8 to it. Thank you, Your Honor.

9 (Pause in the proceedings.)

10 JUDGE CHAPPELL: Are you ready, Ms. Bokat?

11 MS. BOKAT: Yes, I am, Your Honor.

12 JUDGE CHAPPELL: You may proceed.

13 BY MS. BOKAT:

14 Q. Mr. Driscoll, would you be willing to look back  
15 at CX 695 for me?

16 There's an entry there for research studies, is  
17 there not, about three-quarters of the way down the  
18 page?

19 A. Yes, ma'am.

20 Q. So, if there were costs on that line, they  
21 would be subtracted out before we got to the product  
22 margin. Is that correct?

23 A. Oh, but not all research studies. I recall  
24 these schedules. These schedules would only refer to  
25 phase IV studies, what's called post-marketing studies.

1 This would not include any investments or expenditures  
2 we had for research work that the Food and Drug  
3 Administration required of us, regulatory activities  
4 that we had to do with our end of the year filings and  
5 so forth.

6 MS. BOKAT: That's all I have, Your Honor.

7 JUDGE CHAPPELL: Redirect?

8 MS. SHORES: No redirect, Your Honor.

9 JUDGE CHAPPELL: Mr. Driscoll, on that Friday  
10 night back in January of 1998, who was the attorney  
11 representing you in that case?

12 THE WITNESS: Well, we had -- of course, we had  
13 internal counsel, and then outside counsel was the firm  
14 Covington & Burling, and I recall two attorneys,  
15 Tony -- Paul Berman and Tony -- I've forgotten the last  
16 name.

17 JUDGE CHAPPELL: If you had attorneys  
18 representing in the matter, including at the  
19 mediation --

20 THE WITNESS: Yes. I had no one with me at the  
21 basketball game obviously.

22 JUDGE CHAPPELL: You're heading toward my next  
23 question.

24 THE WITNESS: Yes, sir.

25 JUDGE CHAPPELL: -- and you were called by

1 Magistrate Judge DuBois during that Nets-Bulls  
2 basketball game on Friday night in January of 1998?

3 THE WITNESS: I'm sorry, sir, would you repeat  
4 that, please?

5 JUDGE CHAPPELL: Susanne, would you read that  
6 back?

7 (The record was read as follows:)

8 "QUESTION: And you were called by Magistrate  
9 Judge DuBois during that Nets-Bulls basketball game on  
10 Friday night in January of 1998?"

11 THE WITNESS: Actually, I was called by Judge  
12 DuBois' magistrate, Judge Reuter.

13 JUDGE CHAPPELL: Okay, I wanted to get that --  
14 so Judge Reuter is the magistrate.

15 THE WITNESS: Absolutely.

16 JUDGE CHAPPELL: Judge DuBois is the district  
17 court judge.

18 THE WITNESS: Yes.

19 JUDGE CHAPPELL: And you were called by Judge  
20 Reuter?

21 THE WITNESS: That's correct. As I testified  
22 earlier, I never met or even spoke to Judge DuBois.

23 JUDGE CHAPPELL: And the Magistrate Judge  
24 Reuter, did he tell you why he was calling you directly  
25 and not calling your attorney?

1           THE WITNESS: He didn't explain that, no. He  
2 simply said he wanted a settlement that night. As I  
3 had said earlier, he called to state that there had  
4 been a hearing that day --

5           JUDGE CHAPPELL: That's more than I want to  
6 know.

7           THE WITNESS: Okay.

8           JUDGE CHAPPELL: Did you indicate to him that  
9 you were represented by an attorney?

10          THE WITNESS: No, I didn't.

11          JUDGE CHAPPELL: And he never said anything  
12 about why he was calling you and not your lawyer?

13          THE WITNESS: He said very plainly that he  
14 wanted a settlement that night and he wanted to make  
15 that happen.

16          JUDGE CHAPPELL: And you were a VP at  
17 Schering-Plough, is that right, or Key at the time?

18          THE WITNESS: At Key, that's correct.

19          JUDGE CHAPPELL: Have you ever been called  
20 directly by a magistrate judge or a judge for anything?

21          THE WITNESS: No, that's why when I testified  
22 earlier, it was very concerning to me. It was a bit of  
23 duress as I recall it.

24          JUDGE CHAPPELL: That's all I have.

25          Any follow-up questions based on my questions?

1 MS. SHORES: I do, Your Honor.

2 JUDGE CHAPPELL: You may proceed first. It's  
3 your witness.

4 MS. SHORES: I don't mean to go out of turn if  
5 anybody else wants to go.

6 MS. BOKAT: After you.

7 REDIRECT EXAMINATION

8 BY MS. SHORES:

9 Q. Mr. Driscoll, do you know whether or not you  
10 had counsel representing you that Friday night during  
11 the basketball game who were at the magistrate's  
12 chambers?

13 A. Oh, yes, I knew that.

14 Q. And you did? There were lawyers representing  
15 you who were at the magistrate -- with the magistrate  
16 in his chambers?

17 A. That's correct, and the magistrate told me they  
18 were there.

19 MS. SHORES: Nothing further, Your Honor.

20 RECROSS EXAMINATION

21 BY MS. BOKAT:

22 Q. Mr. Driscoll, when you were having that phone  
23 conversation with Magistrate Reuter, were your  
24 attorneys conferenced in on the phone call?

25 A. I don't know that. It certainly didn't sound

1       like it was a conference call, but I don't know that.

2               MS. BOKAT:  Nothing further, Your Honor.

3               JUDGE CHAPPELL:  Anything further?

4               MS. SHORES:  No, Your Honor.

5               JUDGE CHAPPELL:  Thank you, Mr. Driscoll.

6       You're free to leave.

7               Just some scheduling matters.  Have the  
8       respondents revised your estimate of how long your case  
9       is going to take?

10              MR. NIELDS:  I apologize for my uncertainty,  
11       Your Honor.  I don't actually recall vividly what we  
12       said the first time.  I believe I would predict it's  
13       about two weeks from today.  Is that close?

14              JUDGE CHAPPELL:  We're just looking for  
15       ballpark estimates.

16              MR. NIELDS:  I think that's a -- pardon?  No,  
17       this would just be for Schering, not including Upsher.

18              JUDGE CHAPPELL:  Okay.

19              MR. NIELDS:  I think that is a rough estimate.  
20       It could be -- it could be less, and we're having some  
21       scheduling of witness issues which will likely resolve  
22       with some of the -- one or more of the Upsher witnesses  
23       occurring before Schering is completely finished.

24              JUDGE CHAPPELL:  How many more witnesses do you  
25       intend to call, estimate?

1           MR. NIELDS: Your Honor, I am going to have  
2 to --

3           JUDGE CHAPPELL: Give or take three or four  
4 people.

5           MR. NIELDS: Give or take three or four people,  
6 ten.

7           JUDGE CHAPPELL: Mr. Curran, your turn.

8           MR. CURRAN: Likewise, about ten, Your Honor.  
9 We haven't -- we're not in a position to alter our  
10 estimate, but I can tell you we are more determined  
11 than ever to get our witnesses on, have them testify,  
12 get to the heart of the matter, and then proceed with  
13 the next witness.

14          JUDGE CHAPPELL: Okay. And since we've just  
15 begun the defense case, I'm not going to ask you for an  
16 estimate on rebuttal, Ms. Bokat.

17          As I think I stated yesterday, maybe in a  
18 discussion off the record, for planning purposes, I  
19 don't anticipate we'll still be in trial at the end of  
20 the month, but if we are, we will take the 27th of  
21 February off. That will be a day off.

22          Anything else before we adjourn for the  
23 weekend?

24          MS. BOKAT: So, we will have court Monday,  
25 February 25th. Is that right?



1 JUDGE CHAPPELL: No, we will stick with that  
2 commitment to take that day off.

3 MS. BOKAT: Thank you.

4 JUDGE CHAPPELL: Anything further?

5 MR. CURRAN: Not from Upsher, Your Honor.

6 MR. NIELDS: Not from us, Your Honor.

7 MS. BOKAT: Not from us.

8 JUDGE CHAPPELL: Let's vary the schedule a  
9 little bit on Monday. We're going to start at 10:30  
10 rather than 9:30 to allow some housekeeping matters to  
11 be taken care of. There are things going on other than  
12 what's happening right here, as we all know.

13 So, with that, we will adjourn until 10:30  
14 Monday morning. Thank you.

15 (Whereupon, at 2:45 p.m., the hearing was  
16 adjourned.)

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## 1 C E R T I F I C A T I O N O F R E P O R T E R

2 DOCKET/FILE NUMBER: 9297

3 CASE TITLE: SCHERING-PLOUGH/UPSHER-SMITH

4 DATE: FEBRUARY 8, 2002

5

6 I HEREBY CERTIFY that the transcript contained  
7 herein is a full and accurate transcript of the notes  
8 taken by me at the hearing on the above cause before  
9 the FEDERAL TRADE COMMISSION to the best of my  
10 knowledge and belief.

11

12 DATED: 2/11/02

13

14

15

16 SUSANNE BERGLING, RMR

17

## 18 C E R T I F I C A T I O N O F P R O O F R E A D E R

19

20 I HEREBY CERTIFY that I proofread the  
21 transcript for accuracy in spelling, hyphenation,  
22 punctuation and format.

23

24

25 DIANE QUADE

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